Planning Responsibly for the Future

A Discussion Paper on Public Sector Pensions

Public Service Management Pension Plan

Alberta
TREASURY

July, 1991

Proposals for Pension Reform

91-06342/

Public Service Management Pension Plan

Protecting Your Pension Benefits

The Alberta government is proposing reforms to the public sector pension plans. The proposals would:

- protect pension benefits by ensuring that sufficient funds are set aside to meet the pension promises;
- guarantee cost-of-living adjustments at 60% of inflation in Alberta;
- improve the portability of benefits in respect of future service;
- comply with the federal income tax rules regulating pensions.

Securing the Financial Base

The Pension Fund as of March 31, 1990 had assets with a market value of $5.3 billion. The total liabilities of the Public Service, Local Authorities, Public Service Management, Special Forces and Universities Academic pension plans were estimated at $8.7 billion. The unfunded liability of over $3.4 billion would continue to grow rapidly even if contribution rates were increased to cover fully future service costs.

True pension security for employees requires that benefit entitlements be fully funded and backed by marketable assets.

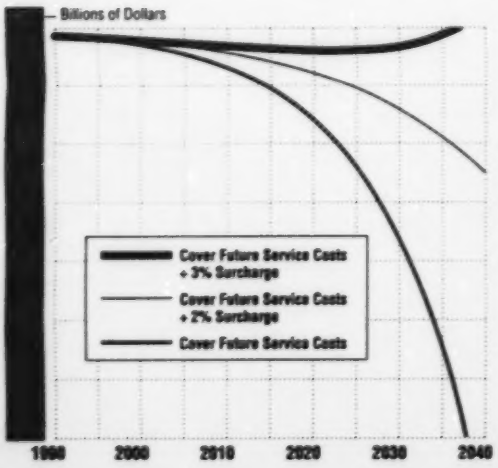
The first financial objective is to eliminate the unfunded liability, including the liability resulting from a 60% cost-of-living guarantee on past service. The government is proposing to do this without disrupting the pension plans or placing an undue burden on any one group by spreading the payments over an estimated 50 years, and by sharing the responsibility equally among government, employers and employees. Each would pay 1% of pensionable earnings. These surcharges would be phased in over four years.

The second objective is to ensure that employee and employer contributions fully cover the annual pension cost of the plan, including a 60% cost-of-living guarantee on future service. This would prevent unfunded liabilities from arising in respect of future service. In your plan, the employer and employee contribution rates, including the surcharge, would be adjusted as shown in the graph and table.

Third, the government proposes to reimburse the Pension Fund, with interest, for previous net payments under the MLA Pension Plan. This plan would be removed from the Pension Fund and dealt with separately.

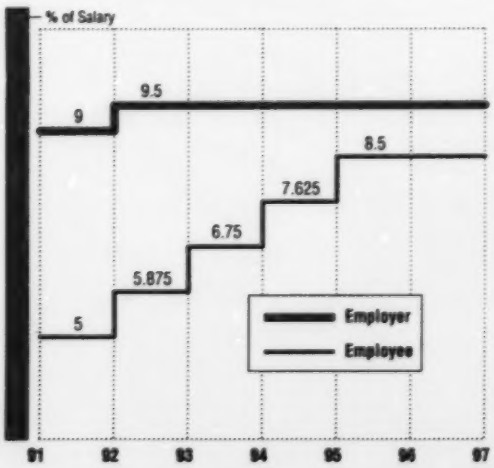
The Pension Fund Act will also be amended to state clearly that the Fund's assets will continue to be invested and used solely for the benefit of plan members.

Projected Unfunded Liabilities for the Five Plans Figure 1



Public Service Management Pension Plan Schedule of Contribution Rates Figure 2

Excluding 1% Additional Surcharge on Alberta Government



Total Contribution Rates, Fully Phased In Figure 3

(% of salary)

	Current Rate	Proposed Rate	Surcharge	Total with Surcharge
Employee	5.0	7.5	1.0	8.5
Employer	9.0	8.5	1.0	9.5
Government of Alberta	–	–	1.0	1.0
Total	14.0	16.0	3.0	19.0

Cost of Living Adjustments Guaranteed

An important element of retirement planning is being able to assess the impact of inflation on your pension. In the past, cost-of-living adjustments (COLA) have been made to pensions at the discretion of Cabinet. The government is proposing a guaranteed COLA of 60% of inflation for current and future retirees. This would allow the government to build the cost of COLA into contribution rates. The guarantee would also allow you to plan your retirement with greater certainty.

Portability

The lack of portability of benefits and the low interest rate on refunds are key concerns of employees.

Effective on passage of the legislation, interest on refunds of employee contributions will be increased to a market rate from the current 4%. The new interest rate will not apply retroactively when calculating refunds.

Existing arrangements allow you to take employer and employee contributions with you only if you are transferring to a public employer with which your plan has a reciprocal agreement. For the first time, employees who leave with five or more years' service would be entitled to take the full value of the pension earned **in respect of service after the passage of the legislation**. Employer contributions would pay at least half of that value.

The dollar value of your pension would be based on such factors as your age, service and salary. It would be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan.

Employees who leave after five or more years' service would still have the option to leave their contributions in the plan and defer their pension, with guaranteed COLA applied before and after the commencement of the pension.

With the introduction of the new portability provisions, reciprocal agreements would be cancelled. Employees would be allowed to transfer service on a properly costed basis among plans administered by the Alberta government except the Special Forces Pension Plan.

Meeting Federal Tax Rules

The Public Service Management Pension Plan is registered with Revenue Canada. This means that your pension contributions can be deducted from income for tax purposes and that the investment income in the Pension Fund can accumulate without taxation. The federal government has recently made changes to the Income Tax Act. In order to continue to offer you a registered pension plan, changes must be made to the plan to meet the new federal rules by January 1, 1992.

Pension benefits earned before that date will not be affected by the new rules.

Currently, you can receive a retirement pension as early as age 55 with five years' service. Your pension is calculated as follows: 2% *times* your years of pensionable service *times* the average of your five highest consecutive years' salary. Your surviving spouse receives 75% of your pension. With the proposed changes, the minimum retirement age will still be 55 years. The federal rules will affect your pension plan as follows:

- An unreduced pension would be available:
  1) at age 60 with five or more years' service, or
  2) at age 55 or over, if your age plus service equals at least 80.

  If you retire before meeting this rule, your pension on service after 1991 must be reduced by at least 3% for each year that you fall short of meeting it. The government is proposing a 5% reduction factor be phased in with the new legislation to reflect the cost of early retirement. The 5% factor is common among pension plans.
- Your surviving spouse would receive two-thirds of your pension on your years of service after 1991.
- There is a maximum pension accrual per year of service after 1991, meaning, in effect, a salary cap of $86,111 a year (indexed after 1994), beyond which your earnings are not pensionable.

Other Benefit Changes

The Alberta government proposes to eliminate the purchase of prior service. The new federal tax rules will severely restrict and complicate these purchases. Moreover, prior service purchases under the five plans have added significantly to the unfunded liability. Prior service already purchased or in the process of being purchased would not be affected. As well, there would be an opportunity to apply for eligible prior service before the provisions are repealed.

To provide a better balance between married and single members, and to make this plan more consistent with the other Alberta plans, the government is proposing to provide single members with a life pension guaranteed for 10 years. The spouse would be required to be married to the member for two years rather than five to qualify for a pension.

Reform Process

There will be a two-stage process in proceeding with the proposed reforms. Changes to the plan arising from the federal tax rules must be made by January 1, 1992. The other changes will be introduced in the next sitting of the Legislative Assembly. Prior to finalizing the changes, consultations will be held with employee and employer representatives.

For further details, please write to Alberta Treasury, Room 414, Terrace Building, 9515-107 Street, Edmonton, T5K 2C3, or in Edmonton phone 422-2070. Outside Edmonton, please use your local RITE line or 1-800-661-8198.

Alberta

TREASURY

July, 1991

Planning Responsibly for the Future

Public Service Management Pension Plan

The Alberta government has undertaken a comprehensive review of the five largest pension plans which it administers: the Public Service Pension Plan, Local Authorities Pension Plan, Public Service Management Pension Plan, Universities Academic Pension Plan and Special Forces Pension Plan.

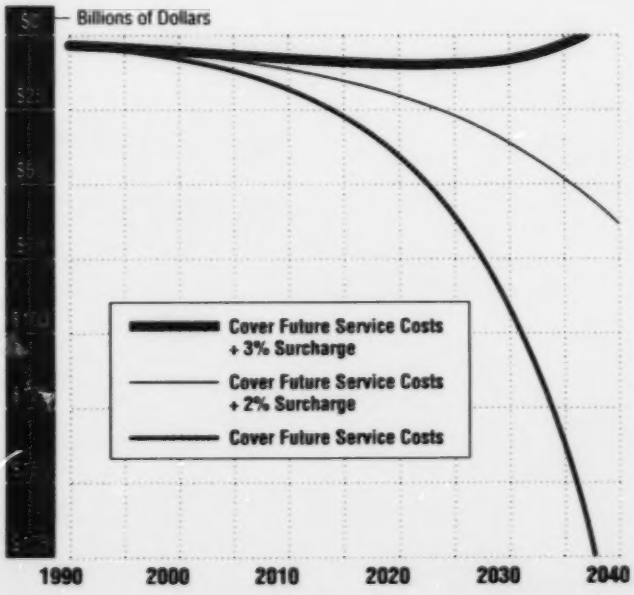
The review was aimed at:

- determining how the plans' finances could be improved,
- assessing the need for updating benefits, and
- identifying amendments required to comply with the new federal income tax rules.

This overview is intended to highlight the key proposals resulting from the review. Appendix 1 shows the detailed proposals as they apply to this plan.

Actuarial analyses (see Appendix 2) were performed to estimate the liabilities and annual costs of each plan, taking into account proposed amendments, and employing new economic assumptions adopted after consultation with the Pension Boards. These analyses estimated total liabilities of the five plans at $8.7 billion as of March 31, 1990. The market value of the Pension Fund assets at that date was $5.3 billion. The analyses showed that the unfunded liability of over $3.4 billion would grow rapidly even if future service costs were fully covered by contributions.

Projected Unfunded Liabilities for the Five Plans Figure 1



The Reform Process

The principles of the proposed reforms were discussed May 30, 1991 with the five Pension Boards, which provide advice to the Minister on behalf of employees and employers in the plans. The details of the proposed changes, including those required to comply with the tax rules, are being released now. The government will consult with the Pension Boards and other interested groups before introducing detailed legislation during the next sitting of the Legislative Assembly.

The plans must comply with the new federal tax rules by January 1, 1992. Following discussions with the Boards, a bill was passed in June, 1991 allowing the government to amend the plans in the interim to comply with the federal rules.

Securing the Financial Base

True pension security for employees requires that all benefits be fully funded and backed by marketable assets.

The following financial actions are proposed:

- To allow for proper cost recognition and funding of the plans, move from ad hoc inflation protection to guaranteed cost-of-living adjustments (COLA) at 60% of inflation. The guarantee will apply to past and future service.
- Adjust employee and employer contributions as necessary to pay fully for future service benefits as they are earned. Contribution rates will be reviewed regularly and adjusted as necessary to maintain full funding.
- Eliminate the unfunded liability for past service for the five plans in the Pension Fund, over an estimated 50 years, through a surcharge of 1% of pensionable earnings on each of the Alberta government, employers and employees.
- Phase in contribution rate increases over four years.
- Remove the MLA Pension Plan from the Pension Fund and reimburse the Pension Fund, with interest, for previous net pension payments.
- Delete provisions allowing employees to buy service performed previously. Prior service has been purchased under the five plans at less than full cost, contributing significantly to the unfunded liability.

Public Service Management Pension Plan
Schedule of Contribution Rates Figure 2

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Improved Portability of Future Service Benefits

The lack of portability of benefits and the low interest rate on refunds are key concerns of employees. In general, existing arrangements allow employees to take the value of their pension credits with them only if they are transferring to other public employers under reciprocal agreements. To improve portability in respect of future service and make the transfer of benefits consistent among the plans and accessible to all terminating members, the following amendments are proposed:

- Effective on passage of the proposed legislation, interest on refunds of employee contributions will begin to be paid at a market rate rather than the current 4%. The new rate will not apply retroactively when calculating refunds.
- Employees with five or more years' service will be entitled to transfer the full value of their accrued benefits to a locked-in RRSP or, where permitted by the new employer, a registered pension plan. Employer contributions would account for at least half of that value. These provisions would apply **in respect of service after the effective date of the legislation.**
- Delete provisions allowing employees to transfer service to or from other public employers. Current reciprocal agreements allow incoming employees to establish pension credits in the plan at less than full cost and result in unfunded liabilities. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Employees will be allowed to transfer service among plans administered by the Alberta government, except the Special Forces Pension Plan.

Meeting New Federal Income Tax Rules

In order to avoid possible de-registration of the Alberta pension plans for income tax purposes, benefits will be restricted to comply with the new federal tax rules. Registration allows employees to deduct their pension contributions from their income, and allows the investment income of the Pension Fund to accumulate without taxation.

The federal rules affect plans differently depending on the features of the plan. Appendix 1 provides details of the amendments as they affect this plan.

Appendix 1

Proposed Amendments to the Public Service Management Pension Plan Act

Proposed Amendment - PSMPP	Current Provision	Comments
I. Financial Measures		
The following financial measures are designed to pay for future benefits as they are earned and amortize the unfunded liability for past service over an estimated 50 years. There are three main measures: contribution rates for current service will be adjusted periodically to pay fully for future service; cost-of-living protection will be guaranteed at 60% of inflation; and a surcharge will be levied on government, employers and employees to amortize the unfunded liability.		
Ensure that combined employee and employer contributions cover the annual pension cost, so that future service is fully funded. Rates will be set in regulation.	Currently, employees pay 5% of salary and employers pay 9%. Employee and employer rates are set in the statute.	The rate increases will be phased in over 4 years. Legislation will require the government to adjust contribution rates, if necessary, after each actuarial valuation to maintain full funding for future service.
Guarantee cost-of-living adjustments (COLA) at 60% of inflation (Alberta CPI) for past and future service.	COLAs are awarded at the discretion of Cabinet.	Guaranteeing COLA provides employees with a known level of inflation protection and allows for proper costing.
To eliminate the unfunded liability of the five plans in the Pension Fund, including the liability in respect of the 60% COLA guarantee, levy government, employers and employees each a surcharge of 1% of pensionable earnings. The surcharges will be phased in over 4 years and eliminated when the total unfunded liability in respect of the five plans has been paid.	There are no provisions for dealing with the unfunded liability that has built up over the years.	The 3% surcharge will mean that all past service benefits under the five plans will be backed by marketable assets rather than the ability of future taxpayers to pay for them. It would also pay for the 60% COLA guarantee on all past service.
II. Changes to Meet Federal Income Tax Rules		
The plan will be amended, as necessary, to comply with the federal tax rules by January 1, 1992.		
Limit the annual pension accruals to the maximum allowed under the federal tax rules.	No limit.	The limit is based on the federal maximum annual pension accrual of $1,722 per year of service (frozen to 1994 and indexed thereafter). In this plan, the effect is that salary above $86,111 will not be pensionable (frozen to 1994 and indexed thereafter).
For post-1991 service, a married person would receive a pension for life with a survivor benefit of two-thirds of the member's pension.	Surviving spouses are entitled to a pension equal to 75% of the member's pension.	Tax rules do not permit survivor benefits in excess of two-thirds of a member's pension.
The minimum retirement age will remain at 55. Vested members will qualify for an unreduced pension if their age plus service equals 80, or at age 60. If members do not qualify, reductions would apply based on the earliest date when they would have qualified for unreduced pensions. Reductions will apply only on service after 1991.	Unreduced pensions are available at age 55 with 5 years' service.	Restrictions required by federal rules (age plus service equals 80, or age 60) have been applied, but it is proposed that the current minimum retirement age of 55 be retained.
Persons not eligible for an unreduced pension on early retirement will have their pension reduced by 5% for each year by which they are short of eligibility for an unreduced pension. The reduction factor will be phased in: 3% for those who retire in 1992, 4% for 1993 retirees, and 5% for retirees in 1994 and after.	The Act does not provide for reduced retirement pensions.	Reduction factors for early retirement are being introduced because of Revenue Canada's early retirement restrictions. To avoid subsidizing employees who retire before being eligible for an unreduced pension, a 5% factor will be used rather than the 3% minimum allowed by the tax rules. The 5% factor is common among pension plans.

Proposed Amendment - PSMPP	Current Provision	Comments
Eliminate the optional 20-year guarantee form of pension.	Optional actuarially equivalent forms of pension are available for persons who do not wish to take the normal form of pension. The 20-year guarantee is one of the forms currently available.	The federal tax rules provide that the maximum guarantee period that can be chosen is 15 years.
Stipulate that pension payments cannot commence later than the end of the year in which the participant reaches age 71.	The current maximum age is 70.	Federal tax legislation requires individuals to begin receiving pensions no later than the end of the year in which the individual reaches age 71.
Clarify that employees cannot accrue more than one year's service in a year within the same plan.	No current provision.	The tax rules require this stipulation.
III. Portability New portability proposals are designed to make the plans' provisions comparable with the standards set out in the Employment Pension Plans Act (EPPA) which governs private sector pension plans registered in Alberta.		
As of the effective date of the legislation, the rate of interest on refunds of contributions will be increased to a market rate of interest. The new interest rate will not apply retroactively when calculating refunds.	The current rate of interest on refunds is 4%.	The market rate will be consistent with the provisions of the EPPA.
Termination benefits: Employees who terminate employment with 5 or more years' service (vested employees) will be entitled to choose: 1) a deferred pension; or 2) a refund of employee contributions earned before the effective date of this legislation, with interest, plus the value of pension entitlements earned after the effective date, with employer contributions paying at least half. The dollar value of benefits in respect of service after the effective date must be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan; or 3) a refund of employee contributions with appropriate interest.	Participants who terminate employment receive employee contributions with interest or, if vested, the option to choose a deferred pension.	This improvement in portability will allow plan members to transfer the full value of the pension benefits they earn after the effective date. These benefits will be consistent with the standards set by the EPPA. Employees with less than 5 years' service will continue to receive their own contributions back, plus interest.
Cancel existing reciprocal agreements. Transfers within the Alberta family of plans, except the Special Forces plan, will be allowed on a sound financial basis.	Reciprocal agreements currently cover transfers to and from certain other public employers, including transfers within the Alberta family of plans.	Current reciprocal agreements allow incoming employees to establish service credits in the plan at less than full cost and result in unfunded liabilities. Changes to agreements are difficult to negotiate. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Transfers within the Alberta family of plans would be done so as to minimize the fiscal impact of transfers between plans of unequal value.

Proposed Amendment - PSMPP	Current Provision	Comments
IV. Other Benefit Changes A number of plan provisions require modification for a variety of reasons: to fix minor problems, to reflect community standards, or to clarify policy intent.		
Repeal provisions allowing plan members to buy prior service. Prior service already purchased or in the process of being purchased will be unaffected. Members will be given until the effective date of these measures to make application before prior service purchase is discontinued.	Members may purchase prior service with public sector employers in Canada, and private sector managerial service, even if the service was not pensionable with the previous employer.	Prior service purchase has added significantly to the unfunded liability, as service is purchased at less than full cost. No other jurisdiction is known to offer employees such generous options to buy service performed for other employers. New federal tax rules will severely limit and complicate prior service purchase.
The normal form of pension will be a pension for life, guaranteed for 10 years. Married members will receive a pension for life with a surviving spouse's pension of two-thirds of the member's pension rather than the 10-year guarantee.	The normal form is a pension for life.	The guaranteed period makes this plan comparable with the other Alberta plans, provides a better balance between married and single members, and allows married and single members more flexibility as it is convertible to other forms.
Reduce the length of marriage required for the spouse to be eligible for a spousal pension to 2 years.	A spouse must be married to the member for 5 years before the member's death to be eligible for a pension.	Eases the current restriction.
Delete the 35-year limit on accrual of pensionable service.	Employees cannot accrue more than 35 years' pensionable service.	The limitation is inconsistent with the removal of mandatory retirement. The change would apply only to service after the effective date of the proposed legislation. Employees with 35 years of pensionable service before the effective date would have the option to resume contributions and accrue additional benefits. Persons achieving 35 years' service after the effective date would automatically continue to participate.
Add an option for an actuarially equivalent joint and last survivor (JLS) pension with a 5-year guarantee.	There is no option available which provides a benefit for the lives of the couple and has a minimum guaranteed period.	Adding the 5-year guarantee option enables couples to provide for a minimum pension benefit in the event that both die within 5 years of pension commencement.
Eliminate the option to choose a JLS pension reduced by half at first death.	The JLS/one-half option is one of the actuarially equivalent options listed in the Act. Married members are not allowed to choose this option, as a spousal pension cannot be less than two-thirds of the original pension.	The joint life reduced by one-half option is rarely chosen.
Allow members who have non-dependent spouses from whom they have been separated more than 3 years to choose a pension with or without spousal protection.	The Act compels married members to provide benefits to spouses, including separated, non-dependent spouses unless their spouse signs a waiver.	The change allows members to choose whether to provide spousal protection for long-estranged spouses where there is no dependency or matrimonial property order. A member choosing not to protect the spouse would be required to sign a sworn statement about their marital status.
For service after the effective date of the proposed legislation, the pre-retirement lump sum death benefit for all beneficiaries of employees with at least five years of service would be equivalent to the termination benefit. A surviving spouse or dependent child(ren) would remain entitled to receive twice employee contributions plus interest where that amount is greater than the termination benefit.	Beneficiaries other than spouses or dependent minor children of vested employees are entitled only to a refund of employee contributions with 4% interest. The surviving spouse or dependent minor child(ren) of a vested employee receives twice the employee's contributions plus interest.	The surviving spouse of a vested employee has three options: to take a pension, to take the lump sum death benefit as cash, or to transfer the lump sum to an RRSP. For service after January 1, 1992, the federal tax rules may affect the pension benefits of some spouses where the member dies close to retirement.

Proposed Amendment - PSMPP	Current Provision	Comments
V. Pension Board		
Clarify the intent of the Act that, in varying a Ministerial decision, the Board shall apply the provisions of the Act.	The Act does not set precise limits on the Board's authority in prescribing remedies.	Clarifies the manner in which the Board may deal with matters on appeal.
VI. Administrative and Housekeeping Amendments		
Proclaim the section directing the Minister to produce annual statements for each plan participant. The provision would be amended to require that the Minister provide the reports to employers rather than to participants, and that employers distribute the reports to participants.	The section was written into the Act but never proclaimed.	Alberta Treasury will continue to produce the statements, but cannot guarantee that the statements will be received by participants since the reports are distributed by employers.
Persons will not be eligible to participate if they cannot achieve vesting before the end of the year in which they reach age 71.	No current provision.	Participation is restricted to persons who can qualify for a pension by age 71.
Extend the time limit for appeal of Board decisions to the Court of Queen's Bench to 60 days.	Current limit is 30 days.	It is difficult to prepare a case in 30 days.
VII. Pension Fund Amendments		
Account separately for the assets of each pension plan in respect of future service.	Assets of the Pension Fund are not accounted for separately by plan.	Accounting for the assets by plan with respect to future service would enable plan members to assess the funding situation of their plan.
State clearly in the Pension Fund Act that the Fund's assets are to be invested and used for the benefit of plan members and for no other purpose.	The Pension Fund Act does not describe the purpose of the Fund.	Currently, the Pension Fund is managed for the benefit of the members. The proposed clause would make the current practice a statutory requirement for the greater security of plan members.
Remove the MLA Pension Plan from the Pension Fund and reimburse the Fund for the excess of payments over contributions, with interest.	MLA contributions and benefit payments are pooled with those of other plans when determining the net contributions flowing from the General Revenue Fund to the Pension Fund.	Annual pension payments under the MLA plan exceed contributions.

Appendix 2

Actuarial Analyses

Actuarial analyses were performed on the five major pension plans as at March 31, 1990. The key purposes of the analyses were to estimate the accrued liabilities and to develop contribution rates for the plans, taking into account:

- benefit adjustments required by the application of the federal tax rules and other benefit adjustments made to provide greater uniformity within plans of similar value;
- amendments to the portability provisions for members terminating employment before retirement;
- a guaranteed cost-of-living adjustment on past and future service of 60% of increases in the Consumer Price Index.

Key Economic Assumptions

After consultations with the Pension Boards, the 1990 analyses were based on the assumption that over the long term the Pension Fund assets would earn a rate of return of 8.5%, with inflation at 5.0%.

The costs were developed using both the unit credit and attained age normal actuarial methods. The unit credit cost method provides an estimate of the value of benefits earned in the year following the valuation date. The attained age normal cost method provides an estimate of the annual cost based on the average cost of all future service of current members. Initial funding rates are set mid-way between the rates developed by these two methods to protect plan participants from fluctuations in their contribution rates.

Actuarial Results

Changes to the real rate of return assumption, COLA and other benefits have affected plan liabilities and the current service costs. The following table shows the actuarial liabilities by plan as at March 31, 1988 and 1990, and the proposed current service contribution rates (excluding the surcharge). The table also shows the assets and unfunded liabilities for the five plans combined.

	Actuarial Liabilities as at March 31		Contribution Rates[c]
Pension Plan	**1988[a]**	**1990[b]**	**1990[b]**
	($ Millions)		(% of Salary)
Public Service	2,249	2,161	10.1
Local Authorities	3,855	3,811	10.3
Public Service Management	1,240	1,249	16.0
Universities Academic	995	1,012	16.0
Special Forces	534	498	20.0
Total Liabilities	**8,873**	**8,731**	
Assets (Market Value)	**4,268**	**5,269**	
Unfunded Liability	**4,605**	**3,462**	

a Assumptions included a 2.5% real rate of return and a 75% COLA.

b Assumptions included a 3.5% real rate of return and a 60% COLA.

c These rates are mid-way between the unit credit and attained age normal costs.

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Special Forces Pension Plan

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Proposals for Pension Reform

Special Forces Pension Plan

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- comply with the federal income tax rules regulating pensions.

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The first financial objective is to eliminate the unfunded liability, including the liability resulting from a 60% cost-of-living guarantee on past service. The government is proposing to do this without disrupting the pension plans or placing an undue burden on any one group by spreading the payments over an estimated 50 years, and by sharing the responsibility equally among government, employers and employees. Each would pay 1% of pensionable earnings. These surcharges would be phased in over four years.

The second objective is to ensure that employee and employer contributions fully cover the annual pension cost of the plan, including a 60% cost-of-living guarantee on future service. This would prevent unfunded liabilities from arising in respect of future service. In your plan, the employer and employee contribution rates, including the surcharge, would be adjusted as shown in the graph and table.

Third, the government proposes to reimburse the Pension Fund, with interest, for previous net payments under the MLA Pension Plan. This plan would be removed from the Pension Fund and dealt with separately.

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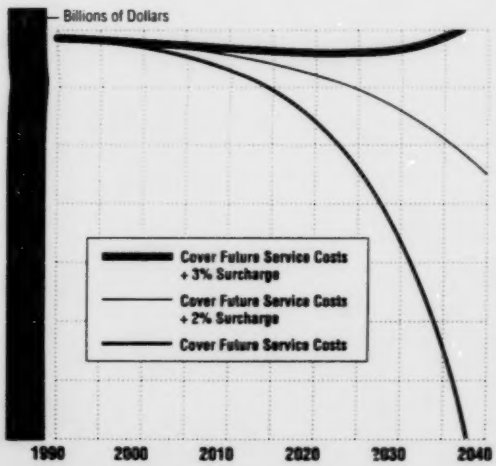

Special Forces Pension Plan Schedule of Contribution Rates Figure 2

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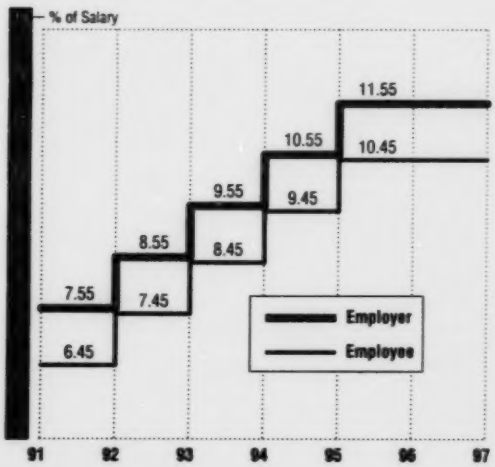

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Portability

The lack of portability of benefits and the low interest rate on refunds are key concerns of employees.

Effective on passage of the legislation, interest on refunds of employee contributions will be increased to a market rate from the current 4%. The new interest rate will not apply retroactively when calculating refunds.

Existing arrangements allow you to take employer and employee contributions with you only if you are transferring to a public employer in the Local Authorities Pension Plan. For the first time, employees who leave with five or more years' service would be entitled to take the full value of the pension earned **in respect of service after the passage of the legislation**. Employer contributions would pay at least half of that value.

The dollar value of your pension would be based on such factors as your age, service and salary. It would be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan.

Employees who leave after five or more years' service would still have the option to leave their contributions in the plan and defer their pension, with guaranteed COLA applied before and after the commencement of the pension.

With the introduction of the new portability provisions, the reciprocal agreement with the Local Authorities Pension Plan would be cancelled. The early retirement provisions of the Special Forces plan make this plan unique and make it inappropriate to credit any service not earned in the plan.

Meeting Federal Tax Rules

The Special Forces Pension Plan is registered with Revenue Canada. This means that your pension contributions can be deducted from income for tax purposes and that the investment income in the Pension Fund can accumulate without taxation. The federal government has recently made changes to the Income Tax Act. In order to continue to offer you a registered pension plan, changes must be made to the plan to meet the new federal rules by January 1, 1992. **Pension benefits earned before that date will not be affected by the new rules.**

Currently, your pension is calculated as follows: 2% *times* your years of pensionable service *times* the average of your five highest consecutive years' salary. At age 65, your pension is reduced by 0.6% of your salary below the CPP maximum pensionable earnings for years of service performed after 1965. You can receive this pension, unreduced, at age 55 with 5 years' service, or after 25 years' service. This pension is guaranteed for five years. An eligible surviving spouse receives 65% of your pension. The federal rules will affect your pension plan as follows:

- There would be a maximum pension accrual per year of service after 1991, meaning, in effect, a salary cap of about $96,000 a year (indexed after 1994), beyond which earnings are not pensionable.

Other Benefit Changes

Survivor benefits in the Special Forces plan would be amended to make them consistent with the Public Service Management plan. Instead of the 65% pension, the surviving spouse would receive two-thirds of the member's pension. Single plan members would receive a pension guaranteed for 10 years rather than five.

Potential service would no longer be included in the calculation of disability or death benefits. Three restrictions on spousal benefits would be eased: a reduction would no longer be applied to spousal pensions where the spouse is more than 10 years younger than the member; the spouse would be required to be married to the member for two years rather than five to qualify for a pension; and spouses' pensions would no longer be cancelled on remarriage.

The Alberta government proposes to eliminate the purchase of prior service. The new federal tax rules will severely restrict and complicate these purchases. Moreover, prior service purchases under the five plans have added significantly to the unfunded liability. Prior service already purchased or in the process of being purchased would not be affected. As well, there would be an opportunity to apply for eligible prior service before the provisions are repealed.

Reform Process

There will be a two-stage process in proceeding with the proposed reforms. Changes to the plan arising from the federal tax rules must be made by January 1, 1992. The other changes will be introduced in the next sitting of the Legislative Assembly. Prior to finalizing the changes, consultations will be held with employee and employer representatives.

For further details, please write to Alberta Treasury, Room 414, Terrace Building, 9515-107 Street, Edmonton, T5K 2C3, or in Edmonton phone 422-2070. Outside Edmonton, please use your local RITE line or 1-800-661-8198.

Alberta
TREASURY
July, 1991

Planning Responsibly for the Future

Special Forces Pension Plan

The Alberta government has undertaken a comprehensive review of the five largest pension plans which it administers: the Public Service Pension Plan, Local Authorities Pension Plan, Public Service Management Pension Plan, Universities Academic Pension Plan and Special Forces Pension Plan.

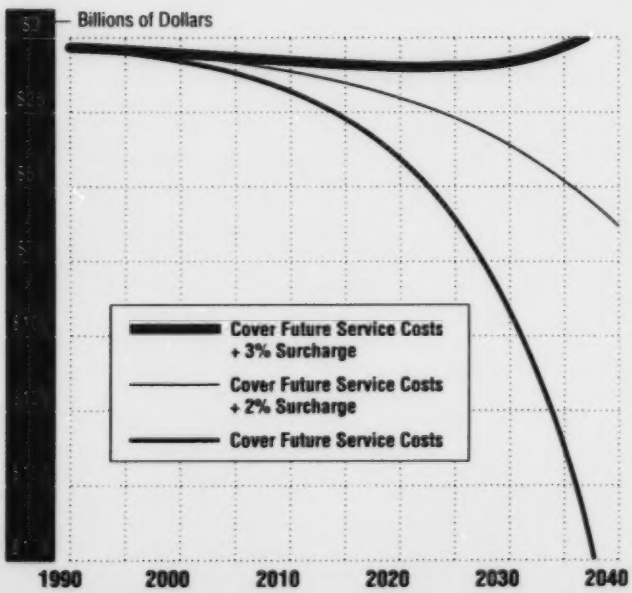
The review was aimed at:

- determining how the plans' finances could be improved,
- assessing the need for updating benefits, and
- identifying amendments required to comply with the new federal income tax rules.

This overview is intended to highlight the key proposals resulting from the review. Appendix 1 shows the detailed proposals as they apply to this plan.

Actuarial analyses (see Appendix 2) were performed to estimate the liabilities and annual costs of each plan, taking into account proposed amendments, and employing new economic assumptions adopted after consultation with the Pension Boards. These analyses estimated total liabilities of the five plans at $8.7 billion as of March 31, 1990. The market value of the Pension Fund assets at that date was $5.3 billion. The analyses showed that the unfunded liability of over $3.4 billion would grow rapidly even if future service costs were fully covered by contributions.

Projected Unfunded Liabilities for the Five Plans Figure 1



The Reform Process

The principles of the proposed reforms were discussed May 30, 1991 with the five Pension Boards, which provide advice to the Minister on behalf of employees and employers in the plans. The details of the proposed changes, including those required to comply with the tax rules, are being released now. The government will consult with the Pension Boards and other interested groups before introducing detailed legislation during the next sitting of the Legislative Assembly.

The plans must comply with the new federal tax rules by January 1, 1992. Following discussions with the Boards, a bill was passed in June, 1991 allowing the government to amend the plans in the interim to comply with the federal rules.

Securing the Financial Base

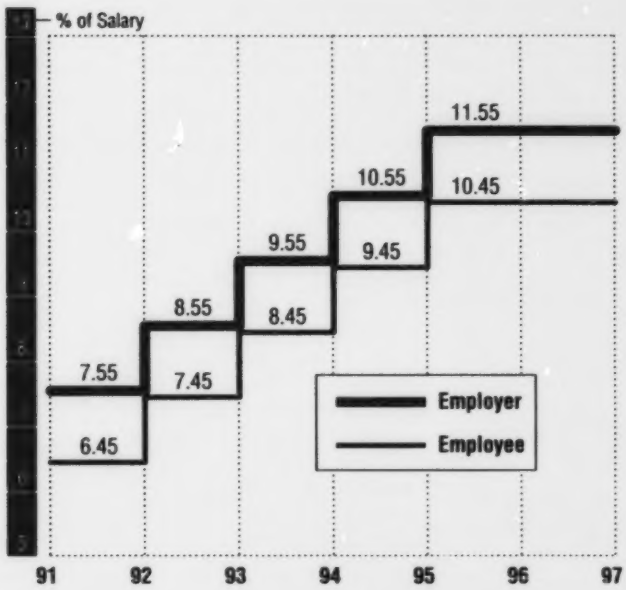
True pension security for employees requires that all benefits be fully funded and backed by marketable assets.

The following financial actions are proposed:

- To allow for proper cost recognition and funding of the plans, move from ad hoc inflation protection to guaranteed cost-of-living adjustments (COLA) at 60% of inflation. The guarantee will apply to past and future service.
- Adjust employee and employer contributions as necessary to pay fully for future service benefits as they are earned. Contribution rates will be reviewed regularly and adjusted as necessary to maintain full funding.
- Eliminate the unfunded liability for past service for the five plans in the Pension Fund, over an estimated 50 years, through a surcharge of 1% of pensionable earnings on each of the Alberta government, employers and employees.
- Phase in contribution rate increases over four years.
- Remove the MLA Pension Plan from the Pension Fund and reimburse the Pension Fund, with interest, for previous net pension payments.
- Delete provisions allowing employees to buy service performed previously. Prior service has been purchased under the five plans at less than full cost, contributing significantly to the unfunded liability.

Special Forces Pension Plan
Schedule of Contribution Rates Figure 2

Excluding 1% Additional Surcharge on Alberta Government



Total Contribution Rates, Fully Phased In Figure 3

(% of salary)

	Current Rate	Proposed Rate	Surcharge	Total with Surcharge
Employee	6.45	9.45	1.0	10.45
Employer	7.55	10.55	1.0	11.55
Government of Alberta	–	–	1.0	1.0
Total	14.0	20.0	3.0	23.0

Improved Portability of Future Service Benefits

The lack of portability of benefits and the low interest rate on refunds are key concerns of employees. In general, existing arrangements allow employees to take their pension credits with them only if they are transferring to other public employers under reciprocal agreements. To improve portability in respect of future service and make the transfer of benefits consistent among the plans and accessible to all terminating members, the following amendments are proposed:

- Effective on passage of the proposed legislation, interest on refunds of employee contributions will begin to be paid at a market rate rather than the current 4%. The new rate will not apply retroactively when calculating refunds.
- Employees with five or more years' service will be entitled to transfer the full value of their accrued benefits to a locked-in RRSP or, where permitted by the new employer, a registered pension plan. Employer contributions would account for at least half of that value. These provisions would apply **in respect of service after the effective date of the legislation.**
- Delete provisions allowing employees to transfer service to or from other public employers. Current reciprocal agreements allow incoming employees to establish pension credits in the plan at less than full cost and result in unfunded liabilities. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Employees will be allowed to transfer service among plans administered by the Alberta government, except the Special Forces Pension Plan.

Meeting New Federal Income Tax Rules

In order to avoid possible de-registration of the Alberta pension plans for income tax purposes, benefits will be restricted to comply with the new federal tax rules. Registration allows employees to deduct their pension contributions from their income, and allows the investment income of the Pension Fund to accumulate without taxation.

The federal rules affect plans differently depending on the features of the plan. Appendix 1 provides details of the amendments as they affect this plan.

Appendix 1

Proposed Amendments to the Special Forces Pension Plan Act

Proposed Amendment - SFPP	Current Provision	Comments
I. Financial Measures		
The following financial measures are designed to pay for future benefits as they are earned and amortize the unfunded liability for past service over an estimated 50 years. There are three main measures: contribution rates for current service will be adjusted periodically to pay fully for future service; cost-of-living protection will be guaranteed at 60% of inflation; and a surcharge will be levied on government, employers and employees to amortize the unfunded liability.		
Ensure that combined employee and employer contributions cover the annual pension cost, so that future service is fully funded. Rates will be set in regulation.	Combined employee and employer rates are set at 14% of salary in the statute. Currently, employees pay 6.45% and employers pay 7.55%.	The rate increases will be phased in over 4 years. Legislation will require the government to adjust contribution rates, if necessary, after each actuarial valuation to maintain full funding for future service.
Guarantee cost-of-living adjustments (COLA) at 60% of inflation (Alberta CPI) for past and future service.	COLAs are awarded at the discretion of Cabinet.	Guaranteeing COLA provides employees with a known level of inflation protection and allows for proper costing.
To eliminate the unfunded liability of the five plans in the Pension Fund, including the liability in respect of the 60% COLA guarantee, levy government, employers and employees each a surcharge of 1% of pensionable earnings. The surcharges will be phased in over 4 years and eliminated when the total unfunded liability in respect of the five plans has been paid.	There are no provisions for dealing with the unfunded liability that has built up over the years.	The 3% surcharge will mean that all past service benefits under the five plans will be backed by marketable assets rather than the ability of future taxpayers to pay for them. It would also pay for the 60% COLA guarantee on all past service.
II. Changes to Meet Federal Income Tax Rules		
The plan will be amended, as necessary, to comply with the federal tax rules by January 1, 1992.		
Limit the annual pension accruals to the maximum allowed under the federal tax rules.	No limit.	The limit is based on the federal maximum annual pension accrual of $1,722 per year of service (frozen to 1994 and indexed thereafter). In this plan, the effect is that salary above about $96,000 will not be pensionable (frozen to 1994 and indexed thereafter).
Eliminate the optional 20-year guarantee form of pension.	Optional actuarially equivalent forms of pension are available for persons who do not wish to take the normal form of pension. The 20-year guarantee is one of the forms currently available.	The federal tax rules provide that the maximum guarantee period that can be chosen is 15 years.
Stipulate that pension payments cannot commence later than the end of the year in which the participant reaches age 71.	The current maximum age is 70.	Federal tax legislation requires individuals to begin receiving pensions no later than the end of the year in which the individual reaches age 71.
Clarify that employees cannot accrue more than one year's service in a year within the same plan.	No current provision.	The tax rules require this stipulation.

Proposed Amendment - SFPP	Current Provision	Comments
III. Portability New portability proposals are designed to make the plans' provisions comparable with the standards set out in the Employment Pension Plans Act (EPPA) which governs private sector pension plans registered in Alberta.		
As of the effective date of the legislation, the rate of interest on refunds of contributions will be increased to a market rate of interest. The new interest rate will not apply retroactively when calculating refunds.	The current rate of interest on refunds is 4%.	The market rate will be consistent with the provisions of the EPPA.
Termination benefits: Employees who terminate employment with 5 or more years' service (vested employees) will be entitled to choose: 1) a deferred pension; or 2) a refund of employee contributions earned before the effective date of this legislation, with interest, plus the value of pension entitlements earned after the effective date, with employer contributions paying at least half. The dollar value of benefits in respect of service after the effective date must be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan; or 3) a refund of employee contributions with appropriate interest.	Participants who terminate employment receive employee contributions with interest or, if vested, the option to choose a deferred pension.	This improvement in portability will allow plan members to transfer the full value of the pension benefits they earn after the effective date. These benefits will be consistent with the standards set by the EPPA. Employees with less than 5 years' service will continue to receive their own contributions back, plus interest.
Cancel the existing reciprocal agreement with the Local Authorities Pension Plan.	A reciprocal agreement currently covers transfers to and from the Local Authorities Pension Plan.	The current reciprocal agreement allows incoming employees to establish credits in the plan at less than full cost and results in unfunded liabilities. The early retirement provisions in the SFPP (25 years and out) make this plan unique, and make it inappropriate to credit service outside the plan. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service.
IV. Other Benefit Changes A number of plan provisions require modification for a variety of reasons: to fix minor problems, to reflect community standards, or to clarify policy intent.		
Repeal provisions allowing plan members to buy prior service. Prior service already purchased or in the process of being purchased will be unaffected. Members will be given until the effective date of these measures to make application before prior service purchase is discontinued.	Members may purchase prior service with public sector employers in Canada, even if the service was not pensionable with the previous employer.	Prior service purchase has added significantly to the unfunded liability, as service is purchased at less than full cost. No other jurisdiction is known to offer employees such generous options to buy service performed for other employers. New federal tax rules will severely limit and complicate prior service purchase.
The normal form of pension will be a pension for life, guaranteed for 10 years. Married members will receive a pension for life with a surviving spouse's pension of two-thirds of the member's pension rather than the 10-year guarantee.	The normal form is a pension for life with a 5-year guarantee. In the case of a married member, the surviving spouse receives a pension equal to 65% of the member's pension.	The proposed change provides a better balance between married and single members. It improves the spousal protection provisions and makes them consistent with the Public Service Management Pension Plan.

Proposed Amendment - SFPP	Current Provision	Comments
Eliminate the provisions that the pension will be reduced if the spouse is 10 or more years younger than the member and that the spousal pension be discontinued on remarriage. Reduce the length of marriage required for the spouse to be eligible for a spousal pension to 2 years.	The pension is reduced by 1% for each year of age difference in excess of 10 years. Spousal pensions for survivors of members who die before retirement are discontinued on remarriage, after payment of a lump sum equal to 24 months of benefits. A spouse must be married to the member for 5 years before the member's death to be eligible for a pension.	This simplifies the spousal pension provisions and makes them consistent with those in the Public Service Management Plan.
Surviving spouses of vested employees who die before retirement will have the option to receive a pension calculated as a joint and last survivor pension, unreduced at first death, based on the member's service. Pensions would no longer be payable in respect of dependent minor children.	Surviving spouses have the option to receive a pension of 65% of the member's accrued pension, plus 10% per child for up to three dependent minor children. If there is no surviving spouse, the legal guardian of dependent minor children may receive 15% of the pension for each of up to four children.	This standardizes the death benefits in the SFPP with those in the Public Service Management Pension Plan (PSMPP). The provisions for vested employees' children will be made consistent with the PSMPP.
Delete the 35-year limit on accrual of pensionable service.	Employees cannot accrue more than 35 years' pensionable service.	The limitation is inconsistent with the removal of mandatory retirement. The change would apply only to service after the effective date of the proposed legislation. Employees with 35 years of pensionable service before the effective date would have the option to resume contributions and accrue additional benefits. Persons achieving 35 years' service after the effective date would automatically continue to participate.
Add an option for an actuarially equivalent joint and last survivor (JLS) pension with a 5-year guarantee.	There is no option available which provides a benefit for the lives of the couple and has a minimum guaranteed period.	Adding the 5-year guarantee option enables couples to provide for a minimum pension benefit in the event that both die within 5 years of pension commencement.
Eliminate the option to choose a JLS pension reduced by half at first death.	The JLS/one-half option is one of the actuarially equivalent options listed in the Act. Married members are not allowed to choose this option, as a spousal pension cannot be less than two-thirds of the original pension.	The joint life reduced by one-half option is rarely chosen.
Allow members who have non-dependent spouses from whom they have been separated more than 3 years to choose a pension with or without spousal protection.	The Act compels married members to provide benefits to spouses, including separated, non-dependent spouses unless their spouse signs a waiver.	The change allows members to choose whether to provide spousal protection for long-estranged spouses where there is no dependency or matrimonial property order. A member choosing not to protect the spouse would be required to sign a sworn statement about their marital status.
For service after the effective date of the proposed legislation, the pre-retirement lump sum death benefit for all beneficiaries of employees with at least 5 years of service would be equivalent to the termination benefit. A surviving spouse or dependent child(ren) would remain entitled to receive twice employee contributions plus interest where that amount is greater than the termination benefit.	Beneficiaries other than spouses or dependent minor children of vested employees are entitled only to a refund of employee contributions with 4% interest. For vested employees and those who die in service, a surviving spouse or dependent child(ren) receives twice employee contributions plus interest.	The surviving spouse of a vested employee has three options: to take a pension, to take the lump sum death benefit as cash, or to transfer the lump sum to an RRSP. For service after January 1, 1992, the federal tax rules may affect the pension benefits of some spouses where the member dies close to retirement.

Proposed Amendment - SFPP	Current Provision	Comments
Delete the provisions allowing for the inclusion of potential service in the calculation of disability and survivor pensions.	Potential service is included in certain instances for members who become disabled, or in calculating pre-retirement survivor pensions.	No other Alberta plan provides for potential service.
V. Pension Board		
Clarify the intent of the Act that, in varying a Ministerial decision, the Board shall apply the provisions of the Act.	The Act does not set precise limits on the Board's authority in prescribing remedies.	Clarifies the manner in which the Board may deal with matters on appeal.
VI. Administrative and Housekeeping Amendments		
Proclaim the section directing the Minister to produce annual statements for each plan participant. The provision would be amended to require that the Minister provide the reports to employers rather than to participants, and that employers distribute the reports to participants.	The section was written into the Act but never proclaimed.	Alberta Treasury will continue to produce the statements, but cannot guarantee that the statements will be received by participants since the reports are distributed by employers.
Persons will not be eligible to participate if they cannot achieve vesting before the end of the year in which they reach age 71.	No current provision.	Participation is restricted to persons who can qualify for a pension by age 71.
Extend the time limit for appeal of Board decisions to the Court of Queen's Bench to 60 days.	Current limit is 30 days.	It is difficult to prepare a case in 30 days.
VII. Pension Fund Amendments		
Account separately for the assets of each pension plan in respect of future service.	Assets of the Pension Fund are not accounted for separately by plan.	Accounting for the assets by plan with respect to future service would enable plan members to assess the funding situation of their plan.
State clearly in the Pension Fund Act that the Fund's assets are to be invested and used for the benefit of plan members and for no other purpose.	The Pension Fund Act does not describe the purpose of the Fund.	Currently, the Pension Fund is managed for the benefit of the members. The proposed clause would make the current practice a statutory requirement for the greater security of plan members.
Remove the MLA Pension Plan from the Pension Fund and reimburse the Fund for the excess of payments over contributions, with interest.	MLA contributions and benefit payments are pooled with those of other plans when determining the net contributions flowing from the General Revenue Fund to the Pension Fund.	Annual pension payments under the MLA plan exceed contributions.

Appendix 2

Actuarial Analyses

Actuarial analyses were performed on the five major pension plans as at March 31, 1990. The key purposes of the analyses were to estimate the accrued liabilities and to develop contribution rates for the plans, taking into account:

- benefit adjustments required by the application of the federal tax rules and other benefit adjustments made to provide greater uniformity within plans of similar value;
- amendments to the portability provisions for members terminating employment before retirement;
- a guaranteed cost-of-living adjustment on past and future service of 60% of increases in the Consumer Price Index.

Key Economic Assumptions

After consultations with the Pension Boards, the 1990 analyses were based on the assumption that over the long term the Pension Fund assets would earn a rate of return of 8.5%, with inflation at 5.0%.

The costs were developed using both the unit credit and attained age normal actuarial methods. The unit credit cost method provides an estimate of the value of benefits earned in the year following the valuation date. The attained age normal cost method provides an estimate of the annual cost based on the average cost of all future service of current members. Initial funding rates are set mid-way between the rates developed by these two methods to protect plan participants from fluctuations in their contribution rates.

Actuarial Results

Changes to the real rate of return assumption, COLA and other benefits have affected plan liabilities and the current service costs. The following table shows the actuarial liabilities by plan as at March 31, 1988 and 1990, and the proposed current service contribution rates (excluding the surcharge). The table also shows the assets and unfunded liabilities for the five plans combined.

	Actuarial Liabilities as at March 31		Contribution Rates[c]
Pension Plan	**1988[a]**	**1990[b]**	**1990[b]**
	($ Millions)		(% of Salary)
Public Service	2,249	2,161	10.1
Local Authorities	3,855	3,811	10.3
Public Service Management	1,240	1,249	16.0
Universities Academic	995	1,012	16.0
Special Forces	534	498	20.0
Total Liabilities	**8,873**	**8,731**	
Assets (Market Value)	**4,268**	**5,269**	
Unfunded Liability	**4,605**	**3,462**	

[a] Assumptions included a 2.5% real rate of return and a 75% COLA.

[b] Assumptions included a 3.5% real rate of return and a 60% COLA.

[c] These rates are mid-way between the unit credit and attained age normal costs.

Planning Responsibly for the Future

A Discussion Paper on Public Sector Pensions

Universities Academic Pension Plan

Alberta
TREASURY

July, 1991

Proposals for Pension Reform

Universities Academic Pension Plan

Protecting Your Pension Benefits

The Alberta government is proposing reforms to the public sector pension plans. The proposals would:

- protect pension benefits by ensuring that sufficient funds are set aside to meet the pension promises;
- guarantee cost-of-living adjustments at 60% of inflation in Alberta;
- make portability of benefits consistent with other plans;
- comply with the federal income tax rules regulating pensions.

Securing the Financial Base

The Pension Fund as of March 31, 1990 had assets with a market value of $5.3 billion. The total liabilities of the Public Service, Local Authorities, Public Service Management, Special Forces and Universities Academic pension plans were estimated at $8.7 billion. The unfunded liability of over $3.4 billion would continue to grow rapidly even if contribution rates were increased to cover fully future service costs.

True pension security for employees requires that benefit entitlements be fully funded and backed by marketable assets.

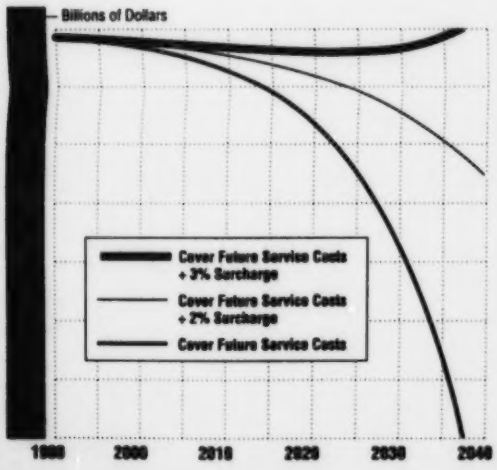
The first financial objective is to eliminate the unfunded liability, including the liability resulting from a 60% cost-of-living guarantee on past service. The government is proposing to do this without disrupting the pension plans or placing an undue burden on any one group by spreading the payments over an estimated 50 years, and by sharing the responsibility equally among government, employers and employees. Each would pay 1% of pensionable earnings. These surcharges would be phased in over four years.

The second objective is to ensure that employee and employer contributions fully cover the annual pension cost of the plan, including a 60% cost-of-living guarantee on future service. This would prevent unfunded liabilities from arising in respect of future service. In your plan, the employer and employee contribution rates, including the surcharge, would be adjusted as shown in the graph and table.

Third, the government proposes to reimburse the Pension Fund, with interest, for previous net payments under the MLA Pension Plan. This plan would be removed from the Pension Fund and dealt with separately.

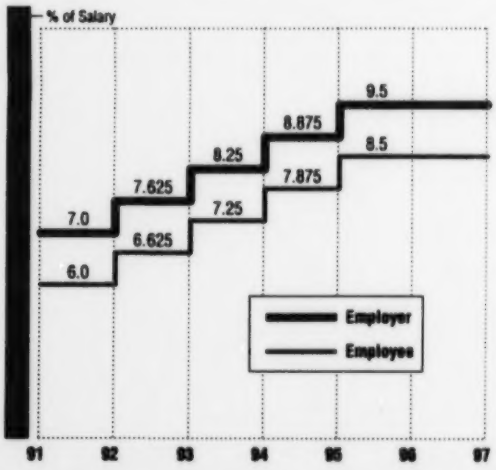
The Pension Fund Act will also be amended to state clearly that the Fund's assets will continue to be invested and used solely for the benefit of plan members.

Projected Unfunded Liabilities for the Five Plans Figure 1



Universities Academic Pension Plan Schedule of Contribution Rates Figure 2

Excluding 1% Additional Surcharge on Alberta Government



Total Contribution Rates, Fully Phased In Figure 3

(% of salary)

	Current Rate	Proposed Rate	Surcharge	Total with Surcharge
Employee	6.0	7.5	1.0	8.5
Employer	7.0	8.5	1.0	9.5
Government of Alberta	–	–	1.0	1.0
Total	13.0	16.0	3.0	19.0

Cost of Living Adjustments Guaranteed

An important element of retirement planning is being able to assess the impact of inflation on your pension. In the past, cost-of-living adjustments (COLA) have been made to pensions at the discretion of Cabinet. The government is proposing a guaranteed COLA of 60% of inflation for current and future retirees. This would allow the government to build the cost of COLA into contribution rates. The guarantee would also allow you to plan your retirement with greater certainty.

Portability

The low interest rate on refunds is a key concern of employees. Effective on passage of the legislation, interest on refunds of employee contributions will be increased to a market rate from the current 4%. The new interest rate will not apply retroactively when calculating refunds.

The current portability provisions of the Universities Academic plan would be amended to make them consistent with those of the other Alberta public sector plans. The vesting period would be reduced to five years from 10. This means you would have a right to receive a pension at retirement with five years' service.

Employees who leave with five or more years' service would be entitled to take the full value of the pension earned **in respect of service after the passage of the legislation**. Employer contributions would pay at least half of that value. The dollar value of your pension would be based on such factors as your age, service and salary. The value would be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan.

Employees would no longer be entitled to receive their employer's contributions when they leave the plan, except on service before the implementation date.

Employees who leave after five or more years' service would have the option to leave their contributions in the plan and defer their pension, with guaranteed COLA applied before and after the commencement of the pension.

With the introduction of the new portability provisions, reciprocal agreements would be cancelled. Employees would be allowed to transfer service on a properly costed basis among plans administered by the Alberta government except the Special Forces Pension Plan.

Meeting Federal Tax Rules

The Universities Academic Pension Plan is registered with Revenue Canada. This means that your pension contributions can be deducted from income for tax purposes and that the investment income in the Pension Fund can accumulate without taxation. The federal government has recently made changes to the Income Tax Act. In order to continue to offer you a registered pension plan, changes must be made to the plan to meet the new federal rules by January 1, 1992. **Pension benefits earned before that date will not be affected by the new rules.**

Currently, you can receive a retirement pension as early as age 55 with 10 years' service. Your pension is calculated as follows: 2% *times* your years of pensionable service *times* the average of your five highest consecutive years' salary. This pension is payable for your life or 15 years, whichever is longer. If you are married, you must take a joint life pension. With the proposed changes, the minimum retirement age will still be 55 years. The federal rules will affect your pension plan as follows:

- An unreduced pension would be available:
  1) at age 60 with five or more years' service, or
  2) at age 55 or over, if your age plus service equals at least 80.

  If you retire before meeting this rule, your pension on service after 1991 must be reduced by at least 3% for each year that you fall short of meeting it. The government is proposing a 5% reduction factor be phased in with the new legislation to reflect the cost of early retirement. The 5% factor is common among pension plans.
- There is a maximum pension accrual per year of service after 1991, meaning, in effect, a salary cap of $86,111 a year (indexed after 1994), beyond which your earnings are not pensionable.

Other Benefit Changes

The Alberta government proposes to eliminate the purchase of prior service. The new federal tax rules will severely restrict and complicate these purchases. Moreover, prior service purchases under the five plans have added significantly to the unfunded liability. Prior service already purchased or in the process of being purchased would not be affected. As well, there would be an opportunity to apply for eligible prior service before the provisions are repealed.

Reform Process

There will be a two-stage process in proceeding with the proposed reforms. Changes to the plan arising from the federal tax rules must be made by January 1, 1992. The other changes will be introduced in the next sitting of the Legislative Assembly. Prior to finalizing the changes, consultations will be held with employee and employer representatives.

For further details, please write to Alberta Treasury, Room 414, Terrace Building, 9515-107 Street, Edmonton, T5K 2C3, or in Edmonton phone 422-2070. Outside Edmonton, please use your local RITE line or 1-800-661-8198.

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July, 1991

Planning Responsibly for the Future

Universities Academic Pension Plan

The Alberta government has undertaken a comprehensive review of the five largest pension plans which it administers: the Public Service Pension Plan, Local Authorities Pension Plan, Public Service Management Pension Plan, Universities Academic Pension Plan and Special Forces Pension Plan.

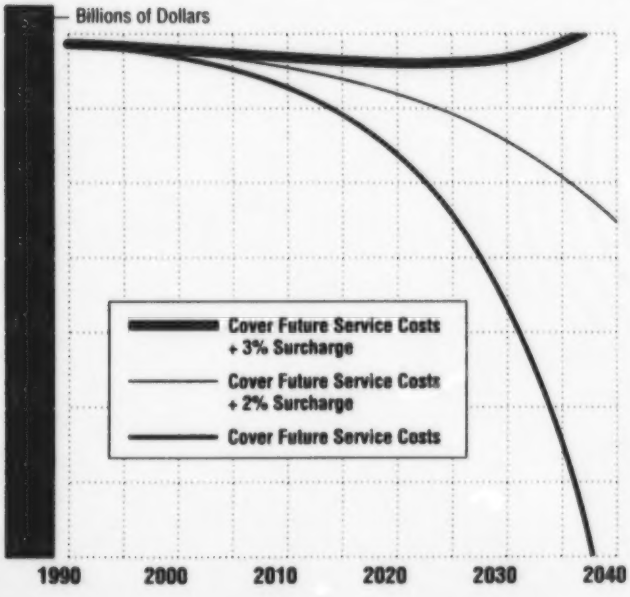
The review was aimed at:

- determining how the plans' finances could be improved,
- assessing the need for updating benefits, and
- identifying amendments required to comply with the new federal income tax rules.

This overview is intended to highlight the key proposals resulting from the review. Appendix 1 shows the detailed proposals as they apply to this plan.

Actuarial analyses (see Appendix 2) were performed to estimate the liabilities and annual costs of each plan, taking into account proposed amendments, and employing new economic assumptions adopted after consultation with the Pension Boards. These analyses estimated total liabilities of the five plans at $8.7 billion as of March 31, 1990. The market value of the Pension Fund assets at that date was $5.3 billion. The analyses showed that the unfunded liability of over $3.4 billion would grow rapidly even if future service costs were fully covered by contributions.

Projected Unfunded Liabilities for the Five Plans Figure 1



The Reform Process

The principles of the proposed reforms were discussed May 30, 1991 with the five Pension Boards, which provide advice to the Minister on behalf of employees and employers in the plans. The details of the proposed changes, including those required to comply with the tax rules, are being released now. The government will consult with the Pension Boards and other interested groups before introducing detailed legislation during the next sitting of the Legislative Assembly.

The plans must comply with the new federal tax rules by January 1, 1992. Following discussions with the Boards, a bill was passed in June, 1991 allowing the government to amend the plans in the interim to comply with the federal rules.

Securing the Financial Base

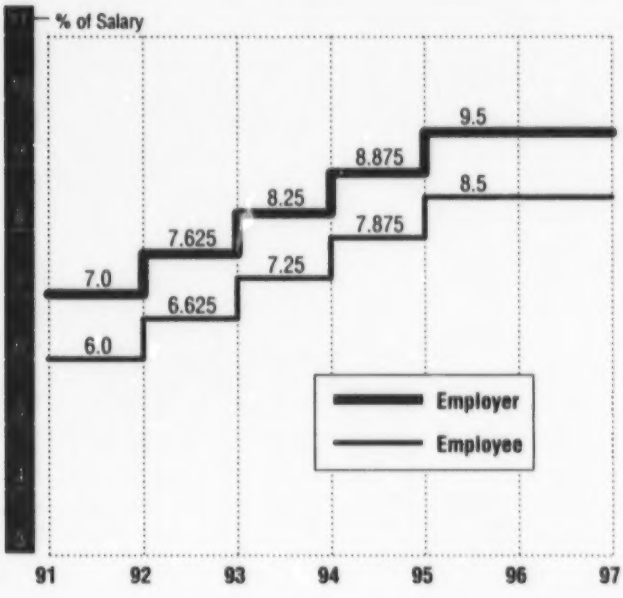
True pension security for employees requires that all benefits be fully funded and backed by marketable assets.

The following financial actions are proposed:

- To allow for proper cost recognition and funding of the plans, move from ad hoc inflation protection to guaranteed cost-of-living adjustments (COLA) at 60% of inflation. The guarantee will apply to past and future service.
- Adjust employee and employer contributions as necessary to pay fully for future service benefits as they are earned. Contribution rates will be reviewed regularly and adjusted as necessary to maintain full funding.
- Eliminate the unfunded liability for past service for the five plans in the Pension Fund, over an estimated 50 years, through a surcharge of 1% of pensionable earnings on each of the Alberta government, employers and employees.
- Phase in contribution rate increases over four years.
- Remove the MLA Pension Plan from the Pension Fund and reimburse the Pension Fund, with interest, for previous net pension payments.
- Delete provisions allowing employees to buy service performed previously. Prior service has been purchased under the five plans at less than full cost, contributing significantly to the unfunded liability.

Universities Academic Pension Plan
Schedule of Contribution Rates Figure 2

Excluding 1% Additional Surcharge on Alberta Government



Total Contribution Rates, Fully Phased In Figure 3

(% of salary)

	Current Rate	Proposed Rate	Surcharge	Total with Surcharge
Employee	6.0	7.5	1.0	8.5
Employer	7.0	8.5	1.0	9.5
Government of Alberta	–	–	1.0	1.0
Total	13.0	16.0	3.0	19.0

Improved Portability of Future Service Benefits

The issue of portability of benefits and the low interest rate on refunds are key concerns of employees. In general, existing arrangements allow employees to take their pension credits with them only if they are transferring to other public employers under reciprocal agreements. In the Universities Academic plan, all terminating employees are entitled to a refund of employee and employer contributions with 4% interest. To update portability provisions and make the transfer of benefits consistent among the plans, the following amendments are proposed:

- Effective on passage of the proposed legislation, interest on refunds of employee contributions will begin to be paid at a market rate rather than the current 4%. The new rate will not apply retroactively when calculating refunds.
- The vesting period will be reduced to five years from 10.
- Vested employees will be entitled to transfer the full value of their accrued benefits to a locked-in RRSP or, where permitted by the new employer, a registered pension plan. Employer contributions would account for at least half of that value. These provisions would apply **in respect of service after the effective date of the legislation.**
- Members of this plan will be entitled to a refund of employer contributions **only in respect of service before the effective date of the legislation.**
- Delete provisions allowing employees to transfer service to or from other public employers. Current reciprocal agreements allow incoming employees to establish pension credits in the plan at less than full cost and result in unfunded liabilities. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Employees will be allowed to transfer service among plans administered by the Alberta government, except the Special Forces Pension Plan.

Meeting New Federal Income Tax Rules

In order to avoid possible de-registration of the Alberta pension plans for income tax purposes, benefits will be restricted to comply with the new federal tax rules. Registration allows employees to deduct their pension contributions from their income, and allows the investment income of the Pension Fund to accumulate without taxation.

The federal rules affect plans differently depending on the features of the plan. Appendix 1 provides details of the amendments as they affect this plan.

Appendix 1

Proposed Amendments to the Universities Academic Pension Plan Act

Proposed Amendment - UAPP	Current Provision	Comments
I. Financial Measures The following financial measures are designed to pay for future benefits as they are earned and amortize the unfunded liability for past service over an estimated 50 years. There are three main measures: contribution rates for current service will be adjusted periodically to pay fully for future service; cost-of-living protection will be guaranteed at 60% of inflation; and a surcharge will be levied on government, employers and employees to amortize the unfunded liability.		
Ensure that combined employee and employer contributions cover the annual pension cost, so that future service is fully funded. Rates will be set in regulation.	Currently, employees pay 6% of salary and employers pay 7%. Employee and employer rates are set in the statute.	The rate increases will be phased in over 4 years. Legislation will require the government to adjust contribution rates, if necessary, after each actuarial valuation to maintain full funding for future service.
Guarantee cost-of-living adjustments (COLA) at 60% of inflation (Alberta CPI) for past and future service.	COLAs are awarded at the discretion of Cabinet.	Guaranteeing COLA provides employees with a known level of inflation protection and allows for proper costing.
To eliminate the unfunded liability of the five plans in the Pension Fund, including the liability in respect of the 60% COLA guarantee, levy government, employers and employees each a surcharge of 1% of pensionable earnings. The surcharges will be phased in over 4 years and eliminated when the total unfunded liability in respect of the five plans has been paid.	There are no provisions for dealing with the unfunded liability that has built up over the years.	The 3% surcharge will mean that all past service benefits under the five plans will be backed by marketable assets rather than the ability of future taxpayers to pay for them. It would also pay for the 60% COLA guarantee on all past service.
II. Changes to Meet Federal Income Tax Rules The plan will be amended, as necessary, to comply with the federal tax rules by January 1, 1992.		
Limit the annual pension accruals to the maximum allowed under the federal tax rules.	No limit.	The limit is based on the federal maximum annual pension accrual of $1,722 per year of service (frozen to 1994 and indexed thereafter). In this plan, the effect is that salary above $86,111 will not be pensionable (frozen to 1994 and indexed thereafter).
The minimum retirement age will remain at 55. Vested members will qualify for an unreduced pension if their age plus service equals 80, or at age 60. If members do not qualify, reductions would apply based on the earliest date when they would have qualified for unreduced pensions. Reductions will apply only on service after 1991.	Unreduced pensions are available at age 55 with 10 years' service.	Restrictions required by federal rules (age plus service equals 80, or age 60) have been applied, but it is proposed that the current minimum retirement age of 55 be retained.
Persons not eligible for an unreduced pension on early retirement will have their pension reduced by 5% for each year by which they are short of eligibility for an unreduced pension. The reduction factor will be phased in: 3% for those who retire in 1992, 4% for 1993 retirees, and 5% for retirees in 1994 and after.	The Act does not provide for reduced retirement pensions.	Reduction factors for early retirement are being introduced because of Revenue Canada's early retirement restrictions. To avoid subsidizing employees who retire before being eligible for an unreduced pension, a 5% factor will be used rather than the 3% minimum allowed by the tax rules. The 5% factor is common among pension plans.
Eliminate the optional 20-year guarantee form of pension.	Optional actuarially equivalent forms of pension are available for persons who do not wish to take the normal form of pension. The 20-year guarantee is one of the forms currently available.	The federal tax rules provide that the maximum guarantee period that can be chosen is 15 years.

Proposed Amendment - UAPP	Current Provision	Comments
Pension choices available to members seeking to convert their normal pension to an alternate form will be limited to options providing a monthly pension lower than or equal to the normal form.	The normal form of pension is for life with a 15-year guarantee ("G-15"). Members may convert the normal form of pension to an option with a shorter or no guarantee period, yielding a higher monthly pension.	The federal tax rules prohibit converting a "G-15" pension to a form yielding a higher monthly amount.
Stipulate that pension payments cannot commence later than the end of the year in which the participant reaches age 71.	The current maximum age is 70.	Federal tax legislation requires individuals to begin receiving pensions no later than the end of the year in which the individual reaches age 71.
Clarify that employees cannot accrue more than one year's service in a year within the same plan.	No current provision.	The tax rules require this stipulation.
III. Portability New portability proposals are designed to bring about uniformity among the plans administered by the Government of Alberta, and to make the plans' provisions comparable with the standards set out in the Employment Pension Plans Act (EPPA) which governs private sector pension plans registered in Alberta.		
As of the effective date of the legislation, the rate of interest on refunds of contributions will be increased to a market rate of interest. The new interest rate will not apply retroactively when calculating refunds.	The current rate of interest on refunds is 4%.	The market rate will be consistent with the provisions of the EPPA.
Change the vesting period to 5 years.	The current vesting period is 10 years.	This will make the UAPP consistent with the other government plans, and with the EPPA.
Termination benefits: Vested employees who terminate employment will be entitled to choose: 1) a deferred pension; or 2) a refund of employee and employer contributions accumulated prior to the effective date of the legislation, with interest, plus the value of pension entitlements earned after the effective date, with employer contributions paying at least half. The dollar value of benefits in respect of service after the effective date must be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan; or 3) a refund of employee and employer contributions with interest accumulated prior to the effective date of the legislation, plus employee contributions and interest in respect of service after the effective date. Non-vested employees will be entitled to receive employee and employer contributions with interest for service before the effective date, and only employee contributions with interest for service after the effective date.	Participants who terminate employment receive employee and employer contributions plus 4% interest with no minimum service requirement. If vested, they may instead choose a deferred pension.	These benefits will be consistent with termination benefits under all other plans, and with the standards set by the EPPA. The current UAPP provision for immediate right to employer contributions is unique among Alberta plans and is not found in plans offering rich early retirement benefits. It also exceeds the federal tax rule maximums which allow either the commuted value or twice employee contributions.
Cancel existing reciprocal agreements. Transfers within the Alberta family of plans, except the Special Forces plan, will be allowed on a sound financial basis.	Reciprocal agreements currently cover transfers to and from certain other public employers, including transfers within the Alberta family of plans.	Current reciprocal agreements allow incoming employees to establish service credits in the plan at less than full cost and result in unfunded liabilities. Changes to agreements are difficult to negotiate. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Transfers within the Alberta family of plans would be done so as to minimize the fiscal impact of transfers between plans of unequal value.

Proposed Amendment - UAPP	Current Provision	Comments
IV. Other Benefit Changes A number of plan provisions require modification for a variety of reasons: to fix minor problems, to reflect community standards, or to clarify policy intent.		
Repeal provisions allowing plan members to buy prior service. Prior service already purchased or in the process of being purchased will be unaffected. Members will be given until the effective date of these measures to make application before prior service purchase is discontinued.	Members may purchase prior service with public sector employers in Canada even if the service was not pensionable with the previous employer.	Prior service purchase has added significantly to the unfunded liability, as service is purchased at less than full cost. No other jurisdiction is known to offer employees such generous options to buy service performed for other employers. New federal tax rules will severely limit and complicate prior service purchase.
Delete the 35-year limit on accrual of pensionable service.	Employees cannot accrue more than 35 years' pensionable service.	The limitation is inconsistent with the removal of mandatory retirement. The change would apply only to service after the effective date of the proposed legislation. Employees with 35 years of pensionable service before the effective date would have the option to resume contributions and accrue additional benefits. Persons achieving 35 years' service after the effective date would automatically continue to participate.
Add an option for an actuarially equivalent joint and last survivor (JLS) pension with a 5-year guarantee.	There is no option available which provides a benefit for the lives of the couple and has a minimum guaranteed period.	Adding the 5-year guarantee option enables couples to provide for a minimum pension benefit in the event that both die within 5 years of pension commencement.
Eliminate the option to choose a JLS pension reduced by half at first death.	The JLS/one-half option is one of the actuarially equivalent options listed in the Act. Married members are not allowed to choose this option, as a spousal pension cannot be less than two-thirds of the original pension.	The joint life reduced by one-half option is rarely chosen.
Allow members who have non-dependent spouses from whom they have been separated more than three years to choose a pension with or without spousal protection.	The Act compels married members to provide benefits to spouses, including separated, non-dependent spouses unless their spouse signs a waiver.	The change allows members to choose whether to provide spousal protection for long-estranged spouses where there is no dependency or matrimonial property order. A member choosing not to protect the spouse would be required to sign a sworn statement about their marital status.
For service after the effective date of the proposed legislation, the pre-retirement lump sum death benefit for all beneficiaries of employees with at least 5 years' service would be equivalent to the termination benefit. A surviving spouse or dependent child(ren) would be entitled to receive twice employee contributions plus interest where that amount is greater than the termination benefit.	For vested or non-vested employees, beneficiaries receive employee and employer contributions plus interest. Surviving spouses of vested employees (10 years) have the option to receive a pension calculated as a joint and last survivor pension.	The surviving spouse of a vested employee has three options: to take a pension, to take the lump sum death benefit as cash, or to transfer the lump sum to an RRSP. For service after January 1, 1992, the federal tax rules may affect the pension benefits of some spouses where the member dies close to retirement. For service before the effective date, beneficiaries will continue to be entitled to employee plus employer contributions with interest.

Proposed Amendment - UAPP	Current Provision	Comments
V. Pension Board		
Clarify the intent of the Act that, in varying a Ministerial decision, the Board shall apply the provisions of the Act.	The Act does not set precise limits on the Board's authority in prescribing remedies.	Clarifies the manner in which the Board may deal with matters on appeal.
Authorize Cabinet to appoint a single representative nominated jointly by the administration and faculty of an institution.	The Act requires separate and equal employer and employee representatives.	Banff Centre and Athabasca University currently share one employee representative and one employer representative. The amendment ensures that the size of the Board remains manageable, while allowing Banff Centre and Athabasca University separate representation.
VI. Administrative and Housekeeping Amendments		
Proclaim the section directing the Minister to produce annual statements for each plan participant. The provision would be amended to require that the Minister provide the reports to employers rather than to participants, and that employers distribute the reports to participants.	The section was written into the Act but never proclaimed.	Alberta Treasury will continue to produce the statements, but cannot guarantee that the statements will be received by participants since the reports are distributed by employers.
Persons will not be eligible to participate if they cannot achieve vesting before the end of the year in which they reach age 71.	No current provision.	Participation is restricted to persons who can qualify for a pension by age 71.
Extend the time limit for appeal of Board decisions to the Court of Queen's Bench to 60 days.	Current limit is 30 days.	It is difficult to prepare a case in 30 days.
VII. Pension Fund Amendments		
Account separately for the assets of each pension plan in respect of future service.	Assets of the Pension Fund are not accounted for separately by plan.	Accounting for the assets by plan with respect to future service would enable plan members to assess the funding situation of their plan.
State clearly in the Pension Fund Act that the Fund's assets are to be invested and used for the benefit of plan members and for no other purpose.	The Pension Fund Act does not describe the purpose of the Fund.	Currently, the Pension Fund is managed for the benefit of the members. The proposed clause would make the current practice a statutory requirement for the greater security of plan members.
Remove the MLA Pension Plan from the Pension Fund and reimburse the Fund for the excess of payments over contributions, with interest.	MLA contributions and benefit payments are pooled with those of other plans when determining the net contributions flowing from the General Revenue Fund to the Pension Fund.	Annual pension payments under the MLA plan exceed contributions.

Appendix 2

Actuarial Analyses

Actuarial analyses were performed on the five major pension plans as at March 31, 1990. The key purposes of the analyses were to estimate the accrued liabilities and to develop contribution rates for the plans, taking into account:

- benefit adjustments required by the application of the federal tax rules and other benefit adjustments made to provide greater uniformity within plans of similar value;
- amendments to the portability provisions for members terminating employment before retirement;
- a guaranteed cost-of-living adjustment on past and future service of 60% of increases in the Consumer Price Index.

Key Economic Assumptions

After consultations with the Pension Boards, the 1990 analyses were based on the assumption that over the long term the Pension Fund assets would earn a rate of return of 8.5%, with inflation at 5.0%.

The costs were developed using both the unit credit and attained age normal actuarial methods. The unit credit cost method provides an estimate of the value of benefits earned in the year following the valuation date. The attained age normal cost method provides an estimate of the annual cost based on the average cost of all future service of current members. Initial funding rates are set mid-way between the rates developed by these two methods to protect plan participants from fluctuations in their contribution rates.

Actuarial Results

Changes to the real rate of return assumption, COLA and other benefits have affected plan liabilities and the current service costs. The following table shows the actuarial liabilities by plan as at March 31, 1988 and 1990, and the proposed current service contribution rates (excluding the surcharge). The table also shows the assets and unfunded liabilities for the five plans combined.

	Actuarial Liabilities as at March 31		Contribution Rates[c]
Pension Plan	**1988[a]**	**1990[b]**	**1990[b]**
	($ Millions)		(% of Salary)
Public Service	2,249	2,161	10.1
Local Authorities	3,855	3,811	10.3
Public Service Management	1,240	1,249	16.0
Universities Academic	995	1,012	16.0
Special Forces	534	498	20.0
Total Liabilities	**8,873**	**8,731**	
Assets (Market Value)	**4,268**	**5,269**	
Unfunded Liability	**4,605**	**3,462**	

a Assumptions included a 2.5% real rate of return and a 75% COLA.

b Assumptions included a 3.5% real rate of return and a 60% COLA.

c These rates are mid-way between the unit credit and attained age normal costs.

Planning Responsibly for the Future

A Discussion Paper on Public Sector Pensions

Local Authorities Pension Plan

Alberta
TREASURY

July, 1991

Proposals for Pension Reform

Local Authorities Pension Plan

Protecting Your Pension Benefits

The Alberta government is proposing reforms to the public sector pension plans. The proposals would:

- protect pension benefits by ensuring that sufficient funds are set aside to meet the pension promises;
- guarantee cost-of-living adjustments at 60% of inflation in Alberta;
- improve the portability of benefits in respect of future service;
- comply with the federal income tax rules regulating pensions.

Securing the Financial Base

The Pension Fund as of March 31, 1990 had assets with a market value of $5.3 billion. The total liabilities of the Public Service, Local Authorities, Public Service Management, Special Forces and Universities Academic pension plans were estimated at $8.7 billion. The unfunded liability of over $3.4 billion would continue to grow rapidly even if contribution rates were increased to cover fully future service costs.

True pension security for employees requires that benefit entitlements be fully funded and backed by marketable assets.

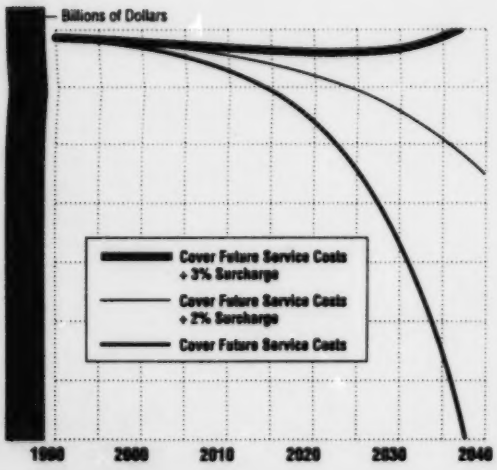
The first financial objective is to eliminate the unfunded liability, including the liability resulting from a 60% cost-of-living guarantee on past service. The government is proposing to do this without disrupting the pension plans or placing an undue burden on any one group by spreading the payments over an estimated 50 years, and by sharing the responsibility equally among government, employers and employees. Each would pay 1% of pensionable earnings. This surcharge would be added to the contribution rates.

The second objective is to ensure that employee and employer contributions fully cover the annual pension cost of the plan, including a 60% cost-of-living guarantee on future service. This would prevent unfunded liabilities from arising in respect of future service. In your plan, contribution rates for future service will not be increased at this time.

Third, the government proposes to reimburse the Pension Fund, with interest, for previous net payments under the MLA Pension Plan. This plan would be removed from the Pension Fund and dealt with separately.

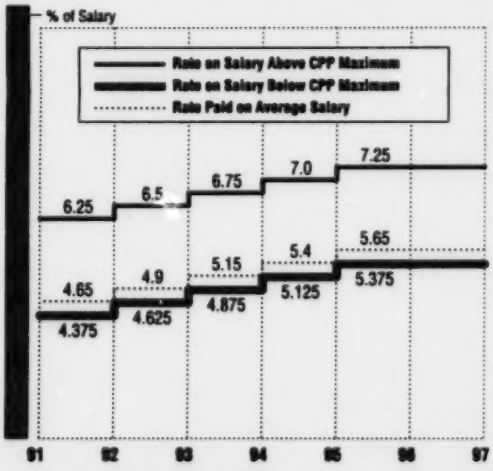
The Pension Fund Act will also be amended to state clearly that the Fund's assets will continue to be invested and used solely for the benefit of plan members.

Projected Unfunded Liabilities for the Five Plans Figure 1



Local Authorities Pension Plan
Schedule of Employee Contribution Rates* Figure 2

Excluding 1% Additional Surcharge on Alberta Government



* Employer rates are 1% higher than employee rates

Total Contribution Rates, Fully Phased In Figure 3

(% of salary)

	Current Rates*	Proposed Rates*	Surcharge	Total with Surcharge*
Employee	6.25/4.375	6.25/4.375	1.0	7.25/5.375
Employer	7.25/5.375	7.25/5.375	1.0	8.25/6.375
Gov't of Alberta	–	–	1.0	1.0/1.0
Total	13.5/9.75	13.5/9.75	3.0	16.5/12.75

* above/below CPP maximum pensionable earnings

Cost of Living Adjustments Guaranteed

An important element of retirement planning is being able to assess the impact of inflation on your pension. In the past, cost-of-living adjustments (COLA) have been made to pensions at the discretion of Cabinet. The government is proposing a guaranteed COLA of 60% of inflation for current and future retirees. This would allow the government to build the cost of COLA into contribution rates. The guarantee would also allow you to plan your retirement with greater certainty.

Portability

The lack of portability of benefits and the low interest rate on refunds are key concerns of employees.

Effective on passage of the legislation, interest on refunds of employee contributions will be increased to a market rate from the current 4%. The new interest rate will not apply retroactively when calculating refunds.

Existing arrangements allow you to take employer and employee contributions with you only if you are transferring to a public employer with which your plan has a reciprocal agreement. For the first time, employees who leave with five or more years' service would be entitled to take the full value of the pension earned **in respect of service after the passage of the legislation**. Employer contributions would pay at least half of that value.

The dollar value of your pension would be based on such factors as your age, service and salary. It would be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan.

Employees who leave after five or more years' service would still have the option to leave their contributions in the plan and defer their pension, with guaranteed COLA applied before and after the commencement of the pension.

With the introduction of the new portability provisions, reciprocal agreements would be cancelled. Employees would be allowed to transfer service on a properly costed basis among plans administered by the Alberta government except the Special Forces Pension Plan.

Meeting Federal Tax Rules

The Local Authorities Pension Plan is registered with Revenue Canada. This means that your pension contributions can be deducted from income for tax purposes and that the investment income in the Pension Fund can accumulate without taxation. The federal government has recently made changes to the Income Tax Act. In order to continue to offer you a registered pension plan, changes must be made to the plan to meet the new federal rules by January 1, 1992. **Pension benefits earned before that date will not be affected by the new rules.**

Currently, your pension is calculated as follows: 1.4% *times* your years of pensionable service *times* the average of your five highest consecutive years' salary below the Canada Pension Plan's (CPP) maximum pensionable earnings, and 2% *times* service *times* average salary above CPP pensionable earnings. The full 2% benefit is payable on all salary for service before 1966. This pension is payable for your life or five years, whichever is longer. If you are married, you must take a joint life pension.

You are eligible to receive a pension at age 65, or at age 55 or over if your age plus service equals at least 85. If you retire before meeting these eligibility rules, your pension is reduced by approximately 2 - 3% for each year that you fall short of meeting them.

After the federal tax rules are implemented, your pension plan will be affected as follows:

- For members who wish to retire before they are eligible for an unreduced pension, federal regulations require a minimum reduction of 3% per year. The government is proposing a 5% reduction factor be phased in with the new legislation to reflect the cost of early retirement. The 5% factor is common among pension plans.
- There is a maximum pension accrual per year of service after 1991, meaning, in effect, a salary cap of about $96,000 a year (indexed after 1994), beyond which your earnings are not pensionable.

Other Benefit Changes

The Alberta government proposes to eliminate the purchase of prior service. The new federal tax rules will severely restrict and complicate these purchases. Moreover, prior service purchases under the five plans have added significantly to the unfunded liability. Prior service already purchased or in the process of being purchased would not be affected. As well, there would be an opportunity to apply for eligible prior service before the provisions are repealed.

A further amendment will be to require employees to be plan members during their probationary year. Other provisions are also being proposed to encourage the inclusion of all full-time continuous employees within this plan.

Reform Process

There will be a two-stage process in proceeding with the proposed reforms. Changes to the plan arising from the federal tax rules must be made by January 1, 1992. The other changes will be introduced in the next sitting of the Legislative Assembly. Prior to finalizing the changes, consultations will be held with employee and employer representatives.

For further details, please write to Alberta Treasury, Room 414, Terrace Building, 9515-107 Street, Edmonton, T5K 2C3, or in Edmonton phone 422-2070. Outside Edmonton, please use your local RITE line or 1-800-661-8198.

Alberta

TREASURY

July, 1991

Planning Responsibly for the Future

Local Authorities Pension Plan

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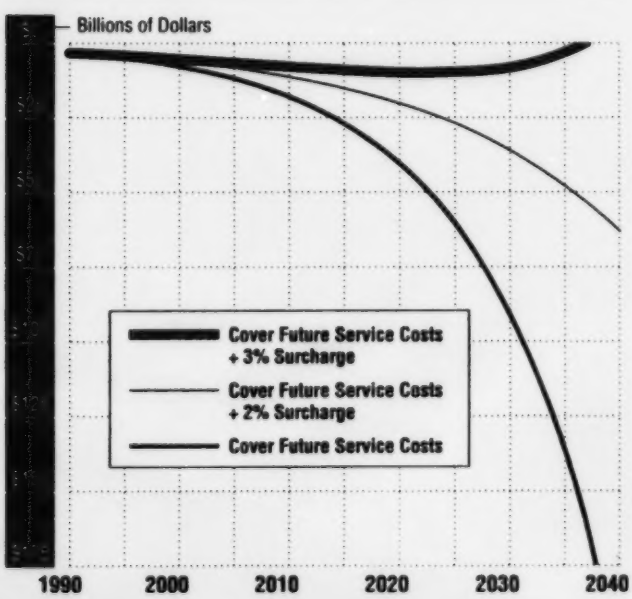

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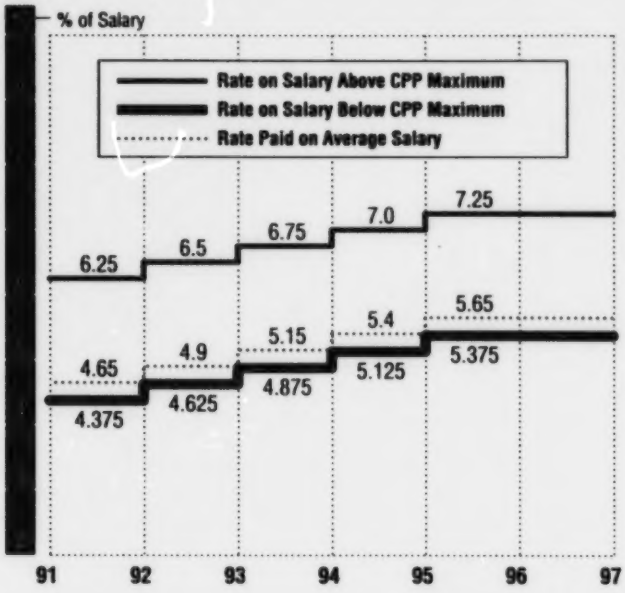
- Eliminate the unfunded liability for past service for the five plans in the Pension Fund, over an estimated 50 years, through a surcharge of 1% of pensionable earnings on each of the Alberta government, employers and employees.
- Phase in contribution rate increases over four years.
- Remove the MLA Pension Plan from the Pension Fund and reimburse the Pension Fund, with interest, for previous net pension payments.
- Delete provisions allowing employees to buy service performed previously. Prior service has been purchased under the five plans at less than full cost, contributing significantly to the unfunded liability.

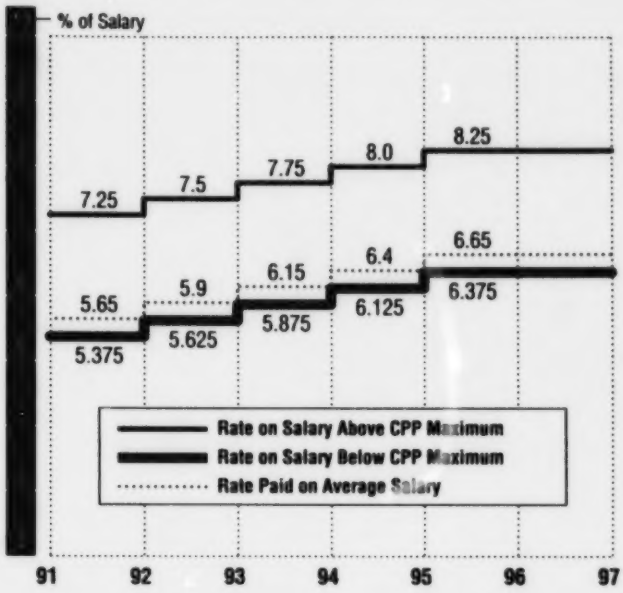
Local Authorities Pension Plan
Schedule of Contribution Rates – Employees Figure 2

Excluding 1% Additional Surcharge on Alberta Government



Local Authorities Pension Plan
Schedule of Contribution Rates – Employers Figure 3

Excluding 1% Additional Surcharge on Alberta Government



Total Contribution Rates, Fully Phased In Figure 4

(% of salary)

	Current Rates*	Proposed Rates*	Surcharge	Total with Surcharge*
Employee	6.25/4.375	6.25/4.375	1.0	7.25/5.375
Employer	7.25/5.375	7.25/5.375	1.0	8.25/6.375
Gov't of Alberta	–	–	1.0	1.0/1.0
Total	13.5/9.75	13.5/9.75	3.0	16.5/12.75

* above/below CPP maximum pensionable earnings

Improved Portability of Future Service Benefits

The lack of portability of benefits and the low interest rate on refunds are key concerns of employees. In general, existing arrangements allow employees to take their pension credits with them only if they are transferring to other public employers under reciprocal agreements. To improve portability in respect of future service and make the transfer of benefits consistent among the plans and accessible to all terminating members, the following amendments are proposed:

- Effective on passage of the proposed legislation, interest on refunds of employee contributions will begin to be paid at a market rate rather than the current 4%. The new rate will not apply retroactively when calculating refunds.
- Employees with five or more years' service will be entitled to transfer the full value of their accrued benefits to a locked-in RRSP or, where permitted by the new employer, a registered pension plan. Employer contributions would account for at least half of that value. These provisions would apply **in respect of service after the effective date of the legislation.**
- Delete provisions allowing employees to transfer service to or from other public employers. Current reciprocal agreements allow incoming employees to establish pension credits in the plan at less than full cost and result in unfunded liabilities. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Employees will be allowed to transfer service among plans administered by the Alberta government, except the Special Forces Pension Plan.

Meeting New Federal Income Tax Rules

In order to avoid possible de-registration of the Alberta pension plans for income tax purposes, benefits will be restricted to comply with the new federal tax rules. Registration allows employees to deduct their pension contributions from their income, and allows the investment income of the Pension Fund to accumulate without taxation.

The federal rules affect plans differently depending on the features of the plan. Appendix 1 provides details of the amendments as they affect this plan.

Appendix 1

Proposed Amendments to the Local Authorities Pension Plan Act

Proposed Amendment - LAPP	Current Provision	Comments
I. Financial Measures		
The following financial measures are designed to pay for future benefits as they are earned and amortize the unfunded liability for past service over an estimated 50 years. There are three main measures: contribution rates for current service will be adjusted periodically to pay fully for future service; cost-of-living protection will be guaranteed at 60% of inflation; and a surcharge will be levied on government, employers and employees to amortize the unfunded liability.		
Ensure that combined employee and employer contributions cover the annual pension cost, so that future service is fully funded. Rates will be set in regulation.	Currently, employees pay 6.25% of salary above the Canada Pension Plan maximum earnings, and 4.375% below; employers pay 7.25% above the CPP maximum and 5.375% below. Employee and employer rates are set in the statute.	No initial current service contribution rate increases are proposed. Legislation will require the government to adjust contribution rates, if necessary, after each actuarial valuation to maintain full funding for future service.
Guarantee cost-of-living adjustments (COLA) at 60% of inflation (Alberta CPI) for past and future service.	COLAs are awarded at the discretion of Cabinet.	Guaranteeing COLA provides employees with a known level of inflation protection and allows for proper costing.
To eliminate the unfunded liability of the five plans in the Pension Fund, including the liability in respect of the 60% COLA guarantee, levy government, employers and employees each a surcharge of 1% of pensionable earnings. The surcharges will be phased in over 4 years and eliminated when the total unfunded liability in respect of the five plans has been paid.	There are no provisions for dealing with the unfunded liability that has built up over the years.	The 3% surcharge will mean that all past service benefits under the five plans will be backed by marketable assets rather than the ability of future taxpayers to pay for them. It would also pay for the 60% COLA guarantee on all past service.
II. Changes to Meet Federal Income Tax Rules		
The plan will be amended, as necessary, to comply with the federal tax rules by January 1, 1992.		
Limit the annual pension accruals to the maximum allowed under the federal tax rules.	No limit.	The limit is based on the federal maximum annual pension accrual of $1,722 per year of service (frozen to 1994 and indexed thereafter). In this plan, the effect is that salary above about $96,000 will not be pensionable (frozen to 1994 and indexed thereafter).
Persons not eligible for an unreduced pension on early retirement will have their pension reduced by 5% for each year by which they are short of eligibility for an unreduced pension. The reduction factor will initially be set at 3% for those who retire in 1992, to meet federal tax rules. After implementation, the reduction factor will be phased in: 4% for retirees in 1993 and 5% for retirees in 1994 and after.	Reduction factors of 2-3% per year have been used.	The 5% factor is common among pension plans. To avoid subsidizing employees who retire before being eligible for an unreduced pension, a 5% factor will be used rather than the 3% minimum allowed by the tax rules. The 5% factor is reflected in contribution rates. Federal tax rules require a minimum reduction factor of 3% per year.
Eliminate the optional 20-year guarantee form of pension.	Optional actuarially equivalent forms of pension are available for persons who do not wish to take the normal form of pension. The 20-year guarantee is one of the forms currently available.	The federal tax rules provide that the maximum guarantee period that can be chosen is 15 years.
Stipulate that pension payments cannot commence later than the end of the year in which the participant reaches age 71.	The current maximum age is 70.	Federal tax legislation requires individuals to begin receiving pensions no later than the end of the year in which the individual reaches age 71.

Proposed Amendment - LAPP	Current Provision	Comments
Clarify that employees cannot accrue more than one year's service in a year within the same plan.	No current provision.	The tax rules require this stipulation.
III. Portability New portability proposals are designed to make the plans' provisions comparable with the standards set out in the Employment Pension Plans Act (EPPA) which governs private sector pension plans registered in Alberta.		
As of the effective date of the legislation, the rate of interest on refunds of contributions will be increased to a market rate of interest. The new interest rate will not apply retroactively when calculating refunds.	The current rate of interest on refunds is 4%.	The market rate will be consistent with the provisions of the EPPA.
Termination benefits: Employees who terminate employment with 5 or more years' service (vested employees) will be entitled to choose: 1) a deferred pension; or 2) a refund of employee contributions earned before the effective date of this legislation, with interest, plus the value of pension entitlements earned after the effective date, with employer contributions paying at least half. The dollar value of benefits in respect of service after the effective date must be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan; or 3) a refund of employee contributions with appropriate interest.	Participants who terminate employment receive employee contributions with interest or, if vested, the option to choose a deferred pension.	This improvement in portability will allow plan members to transfer the full value of the pension benefits they earn after the effective date. These benefits will be consistent with the standards set by the EPPA. Employees with less than 5 years' service will continue to receive their own contributions back, plus interest.
Cancel existing reciprocal agreements. Transfers within the Alberta family of plans, except the Special Forces plan, will be allowed on a sound financial basis.	Reciprocal agreements currently cover transfers to and from certain other public employers, including transfers within the Alberta family of plans.	Current reciprocal agreements allow incoming employees to establish service credits in the plan at less than full cost and result in unfunded liabilities. Changes to agreements are difficult to negotiate. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Transfers within the Alberta family of plans would be done so as to minimize the fiscal impact of transfers between plans of unequal value.
IV. Other Benefit Changes A number of plan provisions require modification for a variety of reasons: to fix minor problems, to reflect community standards, or to clarify policy intent.		
Repeal provisions allowing plan members to buy prior service. Prior service already purchased or in the process of being purchased will be unaffected. Members will be given until the effective date of these measures to make application before prior service purchase is discontinued. A further amendment will be to require employees to contribute during their probationary year. Those on probation as of implementation date will be allowed time to apply for purchase of their probationary year.	Members may purchase prior service with public sector employers in Canada even if the service was not pensionable with the previous employer.	Prior service purchase has added significantly to the unfunded liability, as service is purchased at less than full cost. No other jurisdiction is known to offer employees such generous options to buy service performed for other employers. New federal tax rules will severely limit and complicate prior service purchase. The requirement for contributions during probationary years is consistent with treatment in other Alberta plans.

Proposed Amendment - LAPP	Current Provision	Comments
Delete the 35-year limit on accrual of pensionable service.	Employees cannot accrue more than 35 years' pensionable service.	The limitation is inconsistent with the removal of mandatory retirement. The change would apply only to service after the effective date of the proposed legislation. Employees with 35 years of pensionable service before the effective date would have the option to resume contributions and accrue additional benefits. Persons achieving 35 years' service after the effective date would automatically continue to participate.
Add an option for an actuarially equivalent joint and last survivor (JLS) pension with a 5-year guarantee.	There is no option available which provides a benefit for the lives of the couple and has a minimum guaranteed period.	Adding the 5-year guarantee option enables couples to provide for a minimum pension benefit in the event that both die within 5 years of pension commencement.
Eliminate the option to choose a JLS pension reduced by half at first death.	The JLS/one-half option is one of the actuarially equivalent options listed in the Act. Married members are not allowed to choose this option, as a spousal pension cannot be less than two-thirds of the original pension.	The joint life reduced by one-half option is rarely chosen.
Allow members who have non-dependent spouses from whom they have been separated more than 3 years to choose a pension with or without spousal protection.	The Act compels married members to provide benefits to spouses, including separated, non-dependent spouses unless their spouse signs a waiver.	The change allows members to choose whether to provide spousal protection for long-estranged spouses where there is no dependency or matrimonial property order. A member choosing not to protect the spouse would be required to sign a sworn statement about their marital status.
For service after the effective date of the proposed legislation, the pre-retirement lump sum death benefit for all beneficiaries of employees with at least 5 years of service would be equivalent to the termination benefit. A surviving spouse or dependent child(ren) would remain entitled to receive twice employee contributions plus interest where that amount is greater than the termination benefit.	Beneficiaries other than spouses or dependent minor children of vested employees are entitled only to a refund of employee contributions with 4% interest. The surviving spouse or dependent minor child(ren) of a vested employee receives twice the employee's contributions plus interest.	The surviving spouse of a vested employee has three options: to take a pension, to take the lump sum death benefit as cash, or to transfer the lump sum to an RRSP. For service after January 1, 1992, the federal tax rules may affect the pension benefits of some spouses where the member dies close to retirement.
V. Pension Board		
Clarify the intent of the Act that, in varying a Ministerial decision, the Board shall apply the provisions of the Act.	The Act does not set precise limits on the Board's authority in prescribing remedies.	Clarifies the manner in which the Board may deal with matters on appeal.
VI. Administrative and Housekeeping Amendments		
Proclaim the section directing the Minister to produce annual statements for each plan participant. The provision would be amended to require that the Minister provide the reports to employers rather than to participants, and that employers distribute the reports to participants.	The section was written into the Act but never proclaimed.	Alberta Treasury will continue to produce the statements, but cannot guarantee that the statements will be received by participants since the reports are distributed by employers.

Proposed Amendment - LAPP	Current Provision	Comments
Provide that all new employers joining the LAPP must enrol all full-time employees. Prevent existing LAPP employers from adding or withdrawing groups of employees by class after implementation date.	LAPP employers are allowed to designate which employee groups are participants, and to withdraw and re-enrol groups.	The proposed change would make LAPP membership coverage consistent with that of other Alberta plans.
Persons will not be eligible to participate if they cannot achieve vesting before the end of the year in which they reach age 71.	No current provision.	Participation is restricted to persons who can qualify for a pension by age 71.
Extend the time limit for appeal of Board decisions to the Court of Queen's Bench to 60 days.	Current limit is 30 days.	It is difficult to prepare a case in 30 days.
VII. Pension Fund Amendments		
Account separately for the assets of each pension plan in respect of future service.	Assets of the Pension Fund are not accounted for separately by plan.	Accounting for the assets by plan with respect to future service would enable plan members to assess the funding situation of their plan.
State clearly in the Pension Fund Act that the Fund's assets are to be invested and used for the benefit of plan members and for no other purpose.	The Pension Fund Act does not describe the purpose of the Fund.	Currently, the Pension Fund is managed for the benefit of the members. The proposed clause would make the current practice a statutory requirement for the greater security of plan members.
Remove the MLA Pension Plan from the Pension Fund and reimburse the Fund for the excess of payments over contributions, with interest.	MLA contributions and benefit payments are pooled with those of other plans when determining the net contributions flowing from the General Revenue Fund to the Pension Fund.	Annual pension payments under the MLA plan exceed contributions.

Appendix 2

Actuarial Analyses

Actuarial analyses were performed on the five major pension plans as at March 31, 1990. The key purposes of the analyses were to estimate the accrued liabilities and to develop contribution rates for the plans, taking into account:

- benefit adjustments required by the application of the federal tax rules and other benefit adjustments made to provide greater uniformity within plans of similar value;
- amendments to the portability provisions for members terminating employment before retirement;
- a guaranteed cost-of-living adjustment on past and future service of 60% of increases in the Consumer Price Index.

Key Economic Assumptions

After consultations with the Pension Boards, the 1990 analyses were based on the assumption that over the long term the Pension Fund assets would earn a rate of return of 8.5%, with inflation at 5.0%.

The costs were developed using both the unit credit and attained age normal actuarial methods. The unit credit cost method provides an estimate of the value of benefits earned in the year following the valuation date. The attained age normal cost method provides an estimate of the annual cost based on the average cost of all future service of current members. Initial funding rates are set mid-way between the rates developed by these two methods to protect plan participants from fluctuations in their contribution rates.

Actuarial Results

Changes to the real rate of return assumption, COLA and other benefits have affected plan liabilities and the current service costs. The following table shows the actuarial liabilities by plan as at March 31, 1988 and 1990, and the proposed current service contribution rates (excluding the surcharge). The table also shows the assets and unfunded liabilities for the five plans combined.

	Actuarial Liabilities as at March 31		Contribution Rates[c]
Pension Plan	**1988[a]**	**1990[b]**	**1990[b]**
	($ Millions)		(% of Salary)
Public Service	2,249	2,161	10.1
Local Authorities	3,855	3,811	10.3
Public Service Management	1,240	1,249	16.0
Universities Academic	995	1,012	16.0
Special Forces	534	498	20.0
Total Liabilities	**8,873**	**8,731**	
Assets (Market Value)	**4,268**	**5,269**	
Unfunded Liability	**4,605**	**3,462**	

a Assumptions included a 2.5% real rate of return and a 75% COLA.

b Assumptions included a 3.5% real rate of return and a 60% COLA.

c These rates are mid-way between the unit credit and attained age normal costs.

Planning Responsibly for the Future

A Discussion Paper on Public Sector Pensions

Public Service Pension Plan

Alberta
TREASURY

July, 1991

Proposals for Pension Reform

Public Service Pension Plan

Protecting Your Pension Benefits

The Alberta government is proposing reforms to the public sector pension plans. The proposals would:

- protect pension benefits by ensuring that sufficient funds are set aside to meet the pension promises;
- guarantee cost-of-living adjustments at 60% of inflation in Alberta;
- improve the portability of benefits in respect of future service;
- comply with the federal income tax rules regulating pensions.

Securing the Financial Base

The Pension Fund as of March 31, 1990 had assets with a market value of $5.3 billion. The total liabilities of the Public Service, Local Authorities, Public Service Management, Special Forces and Universities Academic pension plans were estimated at $8.7 billion. The unfunded liability of over $3.4 billion would continue to grow rapidly even if contribution rates were increased to cover fully future service costs.

True pension security for employees requires that benefit entitlements be fully funded and backed by marketable assets.

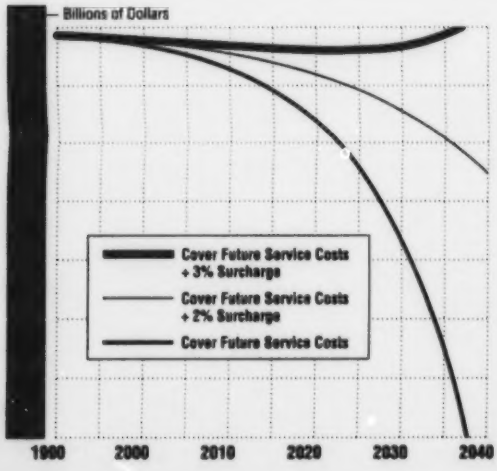
The first financial objective is to eliminate the unfunded liability, including the liability resulting from a 60% cost-of-living guarantee on past service. The government is proposing to do this without disrupting the pension plans or placing an undue burden on any one group by spreading the payments over an estimated 50 years, and by sharing the responsibility equally among government, employers and employees. Each would pay 1% of pensionable earnings. This surcharge would be added to the contribution rates.

The second objective is to ensure that employee and employer contributions fully cover the annual pension cost of the plan, including a 60% cost-of-living guarantee on future service. This would prevent unfunded liabilities from arising in respect of future service. In your plan, the employer contribution rates will be increased to meet the annual cost. Consequently, employee contribution rates for future service will not be increased at this time.

Third, the government proposes to reimburse the Pension Fund, with interest, for previous net payments under the MLA Pension Plan. This plan would be removed from the Pension Fund and dealt with separately.

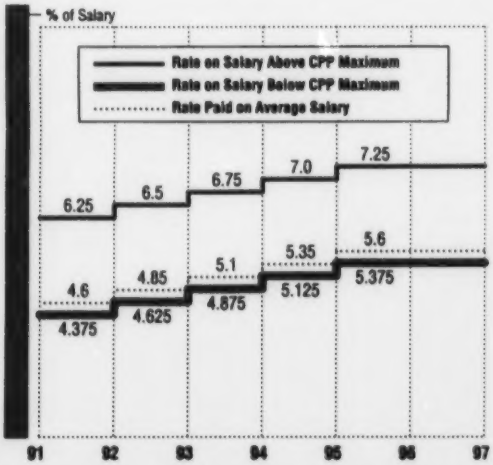
The Pension Fund Act will also be amended to state clearly that the Fund's assets will continue to be invested and used solely for the benefit of plan members.

Projected Unfunded Liabilities for the Five Plans Figure 1



Public Service Pension Plan
Schedule of Employee Contribution Rates* Figure 2

Excluding 1% Additional Surcharge on Alberta Government



* Employer rates will be 1% higher than employee rates when fully phased in.

Total Contribution Rates, Fully Phased In Figure 3

(% of salary)

	Current Rates*	Proposed Rates*	Surcharge	Total with Surcharge*
Employee	6.25/4.375	6.25/4.375	1.0	7.25/5.375
Employer	6.25/4.375	7.25/5.375	1.0	8.25/6.375
Gov't of Alberta	–	–	1.0	1.0/1.0
Total	12.5/8.75	13.5/9.75	3.0	16.5/12.75

* above/below CPP maximum pensionable earnings

Cost of Living Adjustments Guaranteed

An important element of retirement planning is being able to assess the impact of inflation on your pension. In the past, cost-of-living adjustments (COLA) have been made to pensions at the discretion of Cabinet. The government is proposing a guaranteed COLA of 60% of inflation for current and future retirees. This would allow the government to build the cost of COLA into contribution rates. The guarantee would also allow you to plan your retirement with greater certainty.

Portability

The lack of portability of benefits and the low interest rate on refunds are key concerns of employees.

Effective on passage of the legislation, interest on refunds of employee contributions will be increased to a market rate from the current 4%. The new interest rate will not apply retroactively when calculating refunds.

Existing arrangements allow you to take employer and employee contributions with you only if you are transferring to a public employer with which your plan has a reciprocal agreement. For the first time, employees who leave with five or more years' service would be entitled to take the full value of the pension earned **in respect of service after the passage of the legislation**. Employer contributions would pay at least half of that value.

The dollar value of your pension would be based on such factors as your age, service and salary. It would be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan.

Employees who leave after five or more years' service would still have the option to leave their contributions in the plan and defer their pension, with guaranteed COLA applied before and after the commencement of the pension.

With the introduction of the new portability provisions, *reciprocal agreements would be cancelled*. Employees would be allowed to transfer service on a properly costed basis among plans administered by the Alberta government except the Special Forces Pension Plan.

Meeting Federal Tax Rules

The Public Service Pension Plan is registered with Revenue Canada. This means that your pension contributions can be deducted from income for tax purposes and that the investment income in the Pension Fund can accumulate without taxation. The federal government has recently made changes to the Income Tax Act. In order to continue to offer you a registered pension plan, changes must be made to the plan to meet the new federal rules by January 1, 1992. **Pension benefits earned before that date will not be affected by the new rules.**

Currently, your pension is calculated as follows: 1.4% *times* your years of pensionable service *times* the average of your five highest consecutive years' salary below the Canada Pension Plan's (CPP) maximum pensionable earnings, and 2% *times* service *times* average salary above CPP pensionable earnings. The full 2% benefit is payable on all salary for service before 1966. This pension is payable for your life or five years, whichever is longer. If you are married, you must take a joint life pension.

You are eligible to receive a pension at age 65, or at age 55 or over if your age plus service equals at least 85. If you retire before meeting these eligibility rules, your pension is reduced by approximately 2 - 3% for each year that you fall short of meeting them.

After the federal tax rules are implemented, your pension plan will be affected as follows:

- For members who wish to retire before they are eligible for an unreduced pension, federal regulations require a minimum reduction of 3% per year. The government is proposing a 5% reduction factor be phased in with the new legislation to reflect the cost of early retirement. The 5% factor is common among pension plans.
- There is a maximum pension accrual per year of service after 1991, meaning, in effect, a salary cap of about $96,000 a year (indexed after 1994), beyond which your earnings are not pensionable.

Other Benefit Changes

The Alberta government proposes to eliminate the purchase of prior service. The new federal tax rules will severely restrict and complicate these purchases. Moreover, prior service purchases under the five plans have added significantly to the unfunded liability. Prior service already purchased or in the process of being purchased would not be affected. As well, there would be an opportunity to apply for eligible prior service before the provisions are repealed.

Reform Process

There will be a two-stage process in proceeding with the proposed reforms. Changes to the plan arising from the federal tax rules must be made by January 1, 1992. The other changes will be introduced in the next sitting of the Legislative Assembly. Prior to finalizing the changes, consultations will be held with employee and employer representatives.

For further details, please write to Alberta Treasury, Room 414, Terrace Building, 9515-107 Street, Edmonton, T5K 2C3, or in Edmonton phone 422-2070. Outside Edmonton, please use your local RITE line or 1-800-661-8198.

Alberta
TREASURY
July, 1991

Planning Responsibly for the Future

Public Service Pension Plan

The Alberta government has undertaken a comprehensive review of the five largest pension plans which it administers: the Public Service Pension Plan, Local Authorities Pension Plan, Public Service Management Pension Plan, Universities Academic Pension Plan and Special Forces Pension Plan.

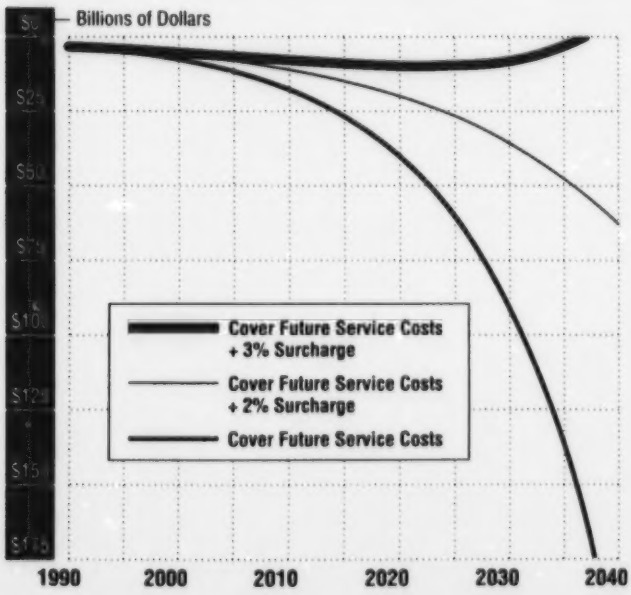
The review was aimed at:

- determining how the plans' finances could be improved,
- assessing the need for updating benefits, and
- identifying amendments required to comply with the new federal income tax rules.

This overview is intended to highlight the key proposals resulting from the review. Appendix 1 shows the detailed proposals as they apply to this plan.

Actuarial analyses (see Appendix 2) were performed to estimate the liabilities and annual costs of each plan, taking into account proposed amendments, and employing new economic assumptions adopted after consultation with the Pension Boards. These analyses estimated total liabilities of the five plans at $8.7 billion as of March 31, 1990. The market value of the Pension Fund assets at that date was $5.3 billion. The analyses showed that the unfunded liability of over $3.4 billion would grow rapidly even if future service costs were fully covered by contributions.

Projected Unfunded Liabilities for the Five Plans Figure 1



The Reform Process

The principles of the proposed reforms were discussed May 30, 1991 with the five Pension Boards, which provide advice to the Minister on behalf of employees and employers in the plans. The details of the proposed changes, including those required to comply with the tax rules, are being released now. The government will consult with the Pension Boards and other interested groups before introducing detailed legislation during the next sitting of the Legislative Assembly.

The plans must comply with the new federal tax rules by January 1, 1992. Following discussions with the Boards, a bill was passed in June, 1991 allowing the government to amend the plans in the interim to comply with the federal rules.

Securing the Financial Base

True pension security for employees requires that all benefits be fully funded and backed by marketable assets.

The following financial actions are proposed:

- To allow for proper cost recognition and funding of the plans, move from ad hoc inflation protection to guaranteed cost-of-living adjustments (COLA) at 60% of inflation. The guarantee will apply to past and future service.
- Adjust employee and employer contributions as necessary to pay fully for future service benefits as they are earned. Contribution rates will be reviewed regularly and adjusted as necessary to maintain full funding.
- Eliminate the unfunded liability for past service for the five plans in the Pension Fund, over an estimated 50 years, through a surcharge of 1% of pensionable earnings on each of the Alberta government, employers and employees.
- Phase in contribution rate increases over four years.
- Remove the MLA Pension Plan from the Pension Fund and reimburse the Pension Fund, with interest, for previous net pension payments.
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Public Service Pension Plan
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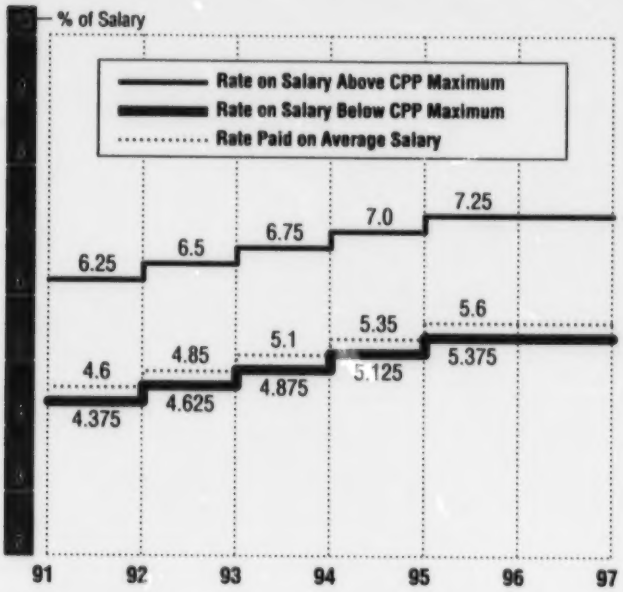

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Schedule of Contribution Rates – Employers Figure 3

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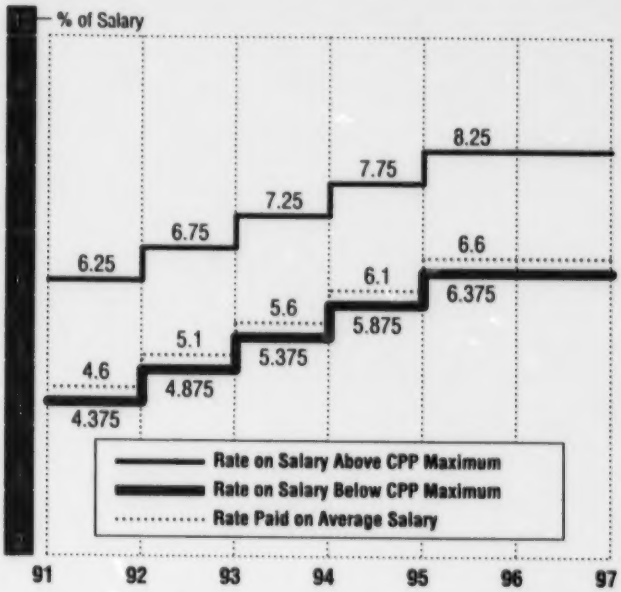

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The lack of portability of benefits and the low interest rate on refunds are key concerns of employees. In general, existing arrangements allow employees to take their pension credits with them only if they are transferring to other public employers under reciprocal agreements. To improve portability in respect of future service and make the transfer of benefits consistent among the plans and accessible to all terminating members, the following amendments are proposed:

- Effective on passage of the proposed legislation, interest on refunds of employee contributions will begin to be paid at a market rate rather than the current 4%. The new rate will not apply retroactively when calculating refunds.
- Employees with five or more years' service will be entitled to transfer the full value of their accrued benefits to a locked-in RRSP or, where permitted by the new employer, a registered pension plan. Employer contributions would account for at least half of that value. These provisions would apply **in respect of service after the effective date of the legislation.**
- Delete provisions allowing employees to transfer service to or from other public employers. Current reciprocal agreements allow incoming employees to establish pension credits in the plan at less than full cost and result in unfunded liabilities. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Employees will be allowed to transfer service among plans administered by the Alberta government, except the Special Forces Pension Plan.

Meeting New Federal Income Tax Rules

In order to avoid possible de-registration of the Alberta pension plans for income tax purposes, benefits will be restricted to comply with the new federal tax rules. Registration allows employees to deduct their pension contributions from their income, and allows the investment income of the Pension Fund to accumulate without taxation.

The federal rules affect plans differently depending on the features of the plan. Appendix 1 provides details of the amendments as they affect this plan.

Appendix I

Proposed Amendments to the Public Service Pension Plan Act

Proposed Amendment - PSPP	Current Provision	Comments
I. Financial Measures		
The following financial measures are designed to pay for future benefits as they are earned and amortize the unfunded liability for past service over an estimated 50 years. There are three main measures: contribution rates for current service will be adjusted periodically to pay fully for future service; cost-of-living protection will be guaranteed at 60% of inflation; and a surcharge will be levied on government, employers and employees to amortize the unfunded liability.		
Ensure that combined employee and employer contributions cover the annual pension cost, so that future service is fully funded. Rates will be set in regulation.	Currently, employees pay 6.25% of salary above the Canada Pension Plan maximum earnings and 4.375% below; employers pay matching contributions. Employee and employer rates are set in the statute.	The employer rate will increase, phased in over a 4-year period. Legislation will require the government to adjust contribution rates, if necessary, after each actuarial valuation to maintain full funding for future service.
Guarantee cost-of-living adjustments (COLA) at 60% of inflation (Alberta CPI) for past and future service.	COLAs are awarded at the discretion of Cabinet.	Guaranteeing COLA provides employees with a known level of inflation protection and allows for proper costing.
To eliminate the unfunded liability of the five plans in the Pension Fund, including the liability in respect of the 60% COLA guarantee, levy government, employers and employees each a surcharge of 1% of pensionable earnings. The surcharges will be phased in over 4 years and eliminated when the total unfunded liability in respect of the five plans has been paid.	There are no provisions for dealing with the unfunded liability that has built up over the years.	The 3% surcharge will mean that all past service benefits under the five plans will be backed by marketable assets rather than the ability of future taxpayers to pay for them. It would also pay for the 60% COLA guarantee on all past service.
II. Changes to Meet Federal Income Tax Rules		
The plan will be amended, as necessary, to comply with the federal tax rules by January 1, 1992.		
Limit the annual pension accruals to the maximum allowed under the federal tax rules.	No limit.	The limit is based on the federal maximum annual pension accrual of $1,722 per year of service (frozen to 1994 and indexed thereafter). In this plan, the effect is that salary above about $96,000 will not be pensionable (frozen to 1994 and indexed thereafter).
Persons not eligible for an unreduced pension on early retirement will have their pension reduced by 5% for each year by which they are short of eligibility for an unreduced pension. The reduction factor will initially be set at 3% for those who retire in 1992, to meet federal tax rules. After implementation, the reduction factor will be phased in: 4% for retirees in 1993 and 5% for retirees in 1994 and after.	Reduction factors of 2-3% per year have been used.	The 5% factor is common among pension plans. To avoid subsidizing employees who retire before being eligible for an unreduced pension, a 5% factor will be used rather than the 3% minimum allowed by the tax rules. The 5% factor is reflected in contribution rates. Federal tax rules require a minimum reduction factor of 3% per year.
Eliminate the optional 20-year guarantee form of pension.	Optional actuarially equivalent forms of pension are available for persons who do not wish to take the normal form of pension. The 20-year guarantee is one of the forms currently available.	The federal tax rules provide that the maximum guarantee period that can be chosen is 15 years.
Stipulate that pension payments cannot commence later than the end of the year in which the participant reaches age 71.	The current maximum age is 70.	Federal tax legislation requires individuals to begin receiving pensions no later than the end of the year in which the individual reaches age 71.
Clarify that employees cannot accrue more than one year's service in a year within the same plan.	No current provision.	The tax rules require this stipulation.

Proposed Amendment - PSPP	Current Provision	Comments
III. Portability New portability proposals are designed to make the plans' provisions comparable with the standards set out in the Employment Pension Plans Act (EPPA) which governs private sector pension plans registered in Alberta.		
As of the effective date of the legislation, the rate of interest on refunds of contributions will be increased to a market rate of interest. The new interest rate will not apply retroactively when calculating refunds.	The current rate of interest on refunds is 4%.	The market rate will be consistent with the provisions of the EPPA.
Termination benefits: Employees who terminate employment with 5 or more years' service (vested employees) will be entitled to choose: 1) a deferred pension; or 2) a refund of employee contributions earned before the effective date of this legislation, with interest, plus the value of pension entitlements earned after the effective date, with employer contributions paying at least half. The dollar value of benefits in respect of service after the effective date must be transferred to another pension plan, where permitted by the new employer, or a locked-in Registered Retirement Savings Plan; or 3) a refund of employee contributions with appropriate interest.	Participants who terminate employment receive employee contributions with interest or, if vested, the option to choose a deferred pension.	This improvement in portability will allow plan members to transfer the full value of the pension benefits they earn after the effective date. These benefits will be consistent with the standards set by the EPPA. Employees with less than 5 years' service will continue to receive their own contributions back, plus interest.
Cancel existing reciprocal agreements. Transfers within the Alberta family of plans, except the Special Forces plan, will be allowed on a sound financial basis.	Reciprocal agreements currently cover transfers to and from certain other public employers, including transfers within the Alberta family of plans.	Current reciprocal agreements allow incoming employees to establish service credits in the plan at less than full cost and result in unfunded liabilities. Changes to agreements are difficult to negotiate. Reciprocal agreements will be less necessary for new employees as the proposed portability provisions would apply to all of their service. Transfers within the Alberta family of plans would be done so as to minimize the fiscal impact of transfers between plans of unequal value.
IV. Other Benefit Changes A number of plan provisions require modification for a variety of reasons: to fix minor problems, to reflect community standards, or to clarify policy intent.		
Repeal provisions allowing plan members to buy prior service. Prior service already purchased or in the process of being purchased will be unaffected. Members will be given until the effective date of these measures to make application before prior service purchase is discontinued.	Members may purchase prior service with public sector employers in Canada even if the service was not pensionable with the previous employer.	Prior service purchase has added significantly to the unfunded liability, as service is purchased at less than full cost. No other jurisdiction is known to offer employees such generous options to buy service performed for other employers. New federal tax rules will severely limit and complicate prior service purchase.
Delete the 35-year limit on accrual of pensionable service.	Employees cannot accrue more than 35 years' pensionable service.	The limitation is inconsistent with the removal of mandatory retirement. The change would apply only to service after the effective date of the proposed legislation. Employees with 35 years of pensionable service before the effective date would have the option to resume contributions and accrue additional benefits. Persons achieving 35 years' service after the effective date would automatically continue to participate.

Proposed Amendment - PSPP	Current Provision	Comments
Add an option for an actuarially equivalent joint and last survivor (JLS) pension with a 5-year guarantee.	There is no option available which provides a benefit for the lives of the couple and has a minimum guaranteed period.	Adding the 5-year guarantee option enables couples to provide for a minimum pension benefit in the event that both die within 5 years of pension commencement.
Eliminate the option to choose a JLS pension reduced by half at first death.	The JLS/one-half option is one of the actuarially equivalent options listed in the Act. Married members are not allowed to choose this option, as a spousal pension cannot be less than two-thirds of the original pension.	The joint life reduced by one-half option is rarely chosen.
Allow members who have non-dependent spouses from whom they have been separated more than 3 years to choose a pension with or without spousal protection.	The Act compels married members to provide benefits to spouses, including separated, non-dependent spouses unless their spouse signs a waiver.	The change allows members to choose whether to provide spousal protection for long-estranged spouses where there is no dependency or matrimonial property order. A member choosing not to protect the spouse would be required to sign a sworn statement about their marital status.
For service after the effective date of the proposed legislation, the pre-retirement lump sum death benefit for all beneficiaries of employees with at least 5 years of service would be equivalent to the termination benefit. A surviving spouse or dependent child(ren) would remain entitled to receive twice employee contributions plus interest where that amount is greater than the termination benefit.	Beneficiaries other than spouses or dependent minor children of vested employees are entitled only to a refund of employee contributions with 4% interest. The surviving spouse or dependent minor child(ren) of a vested employee receives twice the employee's contributions plus interest.	The surviving spouse of a vested employee has three options: to take a pension, to take the lump sum death benefit as cash, or to transfer the lump sum to an RRSP. For service after January 1, 1992, the federal tax rules may affect the pension benefits of some spouses where the member dies close to retirement.
V. Pension Board		
Clarify the intent of the Act that, in varying a Ministerial decision, the Board shall apply the provisions of the Act.	The Act does not set precise limits on the Board's authority in prescribing remedies.	Clarifies the manner in which the Board may deal with matters on appeal.
VI. Administrative and Housekeeping Amendments		
Proclaim the section directing the Minister to produce annual statements for each plan participant. The provision would be amended to require that the Minister provide the reports to employers rather than to participants, and that employers distribute the reports to participants.	The section was written into the Act but never proclaimed.	Alberta Treasury will continue to produce the statements, but cannot guarantee that the statements will be received by participants since the reports are distributed by employers.
Persons will not be eligible to participate if they cannot achieve vesting before the end of the year in which they reach age 71.	No current provision.	Participation is restricted to persons who can qualify for a pension by age 71.
Extend the time limit for appeal of Board decisions to the Court of Queen's Bench to 60 days.	Current limit is 30 days.	It is difficult to prepare a case in 30 days.

Proposed Amendment - PSPP	Current Provision	Comments
VII. Pension Fund Amendments		
Account separately for the assets of each pension plan in respect of future service.	Assets of the Pension Fund are not accounted for separately by plan.	Accounting for the assets by plan with respect to future service would enable plan members to assess the funding situation of their plan.
State clearly in the Pension Fund Act that the Fund's assets are to be invested and used for the benefit of plan members and for no other purpose.	The Pension Fund Act does not describe the purpose of the Fund.	Currently, the Pension Fund is managed for the benefit of the members. The proposed clause would make the current practice a statutory requirement for the greater security of plan members.
Remove the MLA Pension Plan from the Pension Fund and reimburse the Fund for the excess of payments over contributions, with interest.	MLA contributions and benefit payments are pooled with those of other plans when determining the net contributions flowing from the General Revenue Fund to the Pension Fund.	Annual pension payments under the MLA plan exceed contributions.

Appendix 2

Actuarial Analyses

Actuarial analyses were performed on the five major pension plans as at March 31, 1990. The key purposes of the analyses were to estimate the accrued liabilities and to develop contribution rates for the plans, taking into account:

- benefit adjustments required by the application of the federal tax rules and other benefit adjustments made to provide greater uniformity within plans of similar value;
- amendments to the portability provisions for members terminating employment before retirement;
- a guaranteed cost-of-living adjustment on past and future service of 60% of increases in the Consumer Price Index.

Key Economic Assumptions

After consultations with the Pension Boards, the 1990 analyses were based on the assumption that over the long term the Pension Fund assets would earn a rate of return of 8.5%, with inflation at 5.0%.

The costs were developed using both the unit credit and attained age normal actuarial methods. The unit credit cost method provides an estimate of the value of benefits earned in the year following the valuation date. The attained age normal cost method provides an estimate of the annual cost based on the average cost of all future service of current members. Initial funding rates are set mid-way between the rates developed by these two methods to protect plan participants from fluctuations in their contribution rates.

Actuarial Results

Changes to the real rate of return assumption, COLA and other benefits have affected plan liabilities and the current service costs. The following table shows the actuarial liabilities by plan as at March 31, 1988 and 1990, and the proposed current service contribution rates (excluding the surcharge). The table also shows the assets and unfunded liabilities for the five plans combined.

	Actuarial Liabilities as at March 31		Contribution Rates[c]
Pension Plan	**1988[a]**	**1990[b]**	**1990[b]**
	($ Millions)		(% of Salary)
Public Service	2,249	2,161	10.1
Local Authorities	3,855	3,811	10.3
Public Service Management	1,240	1,249	16.0
Universities Academic	995	1,012	16.0
Special Forces	534	498	20.0
Total Liabilities	**8,873**	**8,731**	
Assets (Market Value)	**4,268**	**5,269**	
Unfunded Liability	**4,605**	**3,462**	

[a] Assumptions included a 2.5% real rate of return and a 75% COLA.

[b] Assumptions included a 3.5% real rate of return and a 60% COLA.

[c] These rates are mid-way between the unit credit and attained age normal costs.